

A Reprint from *Tierra Grande*

Taxpayers who have allowable moving expenses receive deductions for adjusted gross income (AGI). Deductions for AGI are preferable to itemized deductions, which are deductible from AGI, because not all taxpayers are able to itemize.

Deductible moving expenses include the cost of moving household items, transportation, and lodging during the period of travel from the former residence to the new residence. Brokerage commissions are deductible when computing the gain or loss on the sale of the residence.

The minimum distance of a deductible move is 50 miles. Employer reimbursements of allowable moving expenses are excluded from gross income, but excess reimbursements increase gross income and are taxable.

For example, assume the cost of moving household items and transportation during an employee's move is \$5,000. The entire \$5,000 is deductible. Now assume pre-move house-hunting trips and the real estate commission paid for selling the house (both are nondeductible moving expenses) total \$10,000.

If the employer reimburses the employee \$15,000, \$5,000 is excluded for tax purposes because it offsets \$5,000 of deductible expenses. Neither the \$5,000 reimbursement nor the \$5,000 moving expenses are reported on the tax return. However, \$10,000 (\$15,000 less \$5,000) is added to the employee's gross income. If he or she is in the 25 percent tax bracket, this results in a tax increase of \$2,500 (25 percent of \$10,000).

Deductible Expenses

Taxpayers may deduct the costs of packing, crating, insuring and transporting household goods and personal effects from the old residence to the new residence (for example, the cost of renting a truck or hiring a moving company). In-transit storage and insurance costs are deductible if incurred within any consecutive 30-day period after the items are moved from the taxpayer's former residence and before they are delivered to the new residence.

The costs of connecting or disconnecting utilities required because of moving household goods, appliances or personal effects are deductible, as are expenses of moving a pet and shipping an automobile.

Deductible Transportation Costs

The 2007 mileage deduction for each auto used in connection with a qualified move is 20 cents per mile, up from 18 cents in 2006. Alternatively, the taxpayer can elect to compute transportation costs based on the actual costs of gasoline, oil, tolls and parking (but not repair or maintenance costs).

Lodging costs incurred while en route to the new home as well as those on the day of arrival are deductible. Any additional costs incurred because the family chooses a scenic route or stopovers for personal enjoyment are not deductible.

Nondeductible Expenses

The cost of meals associated with the move are not deductible. Other nondeductible costs include losses from selling

household and personal items, penalties for breaking leases, mortgage penalties and expenses for refitting draperies or rugs. Costs for moving nonfamily members such as governesses, nurses, servants and chauffeurs are not deductible. Losses sustained on club memberships, tuition fees, and similar items are not deductible.

Distance Test

The IRS applies a distance test to ensure that the taxpayer's new job location requires him or her to relocate. This test requires the taxpayer's commute to the new job *without the move* to increase by at least 50 miles. That is, the test is satisfied if the distance between the old residence and the new job is at least 50 miles greater than the distance between the old residence and the old job.

For example, assume Lauren is a real estate salesperson in College Station. She moves 90 miles to Houston in 2007 to work for a different real estate broker. Lauren's old commute to her office was four miles. The 90-mile move satisfies the distance test because it exceeds 54 miles (four-mile old commute plus 50-mile minimum). Lauren's transportation deduction is \$18 (90 miles \times 20 cents).

If, instead, Lauren is a full-time student graduating from Texas A&M and moving to Houston to accept full-time employment, the commute to the old job is considered zero for purposes of the distance test. Again, because the 90-mile move to Houston exceeds the 50-mile minimum, the distance test is satisfied.

As demonstrated here, the benefits of deducting moving expenses can be sizable. But the rules and calculations can be complicated. For specific advice, consultation with a tax accountant or tax attorney is recommended. \blacklozenge

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THE TAKEAWAY

Taxpayers who have qualified moving expenses receive a deduction for adjusted gross income. The new mileage deduction for each auto used in connection with a qualified move is 20 cents per mile in 2007, up from 18 cents in 2006.



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