

Tax Relief for Relocation Costs

Removal expenses incurred or removal benefits provided by an employer may be exempt from tax and NIC's. The current exempt amount for relocation costs stands at £8,000. This basically means that were an employee is required to move because of his employment (either starting a new job or relocating due to their current position) the employer is able to pay up to £8,000 of the costs incurred without the employee suffering a taxable benefit. Any payments reimbursed to the employee in excess of £8,000 are taxable in the hands of the employee and the employer also has to pay Class 1A National Insurance on the benefit at 13.8%.

The £8,000 is only applied against qualifying relocation expenses payments. Non-qualifying relocation expenses are taxable in the hands of the employee and the £8,000 exemption cannot be applied.

To qualify removal expenses and benefits must fall within specific categories of expenses and benefits and the change of residence must satisfy a number of conditions.

The most important condition is that the employee must change their only or main residence as a result of:

- Starting a new employment
- A change of duties of his employment
- Changing the place where the duties are performed

The employee does not need to dispose of their old residence in order to qualify for the relief but there must be a change in their main residence. If the relocation is cancelled and the main residence does not change then any expenses reimbursed or benefits provided in connection with the cancelled relocation will be taxable.

The new residence must be within reasonable daily travelling distance of the new normal place of work. The old residence must not be within reasonable daily travelling distance of the new normal place of work.

In order to qualify for relief the removal expenses must normally be incurred or the benefits provided before the end of the tax year after the tax year in which the employee starts the new job/position i.e. if the employee moved into the new home in the 2012/13 tax year the removal expenses or benefits provided will qualify for relief up to the end of the 2013/14 tax year.

Expenses and benefits which qualify for exemption can be split into six categories:

- Disposal or intended disposal of old residence
- Acquisition or intended acquisition of new residence
- Transporting belongings
- Travelling and subsistence
- Domestic goods for the new residence
- Bridging Loans

For a more detailed breakdown you can refer to the HMRC website.

Please note that this information sheet is a guide only, specific professional advise should always be taken.

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