



Changes to Principal Residence Rules

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Canada Revenue Agency

Reporting the sale of your principal residence for individuals (other than trusts)

On October 3, 2016, the Government announced an administrative change to Canada Revenue Agency's reporting requirements for the sale of a principal residence.

When you sell your principal residence or when you are considered to have sold it, usually you do not have to report the sale on your income tax and benefit return and you do not have to pay tax on any gain from the sale. This is the case if you are eligible for the full income tax exemption (principal residence exemption) because the property was your principal residence for every year you owned it.

Starting with the 2016 tax year, generally due by late April 2017, you will be required to report basic information (date of acquisition, proceeds of disposition and description of the property) on your income tax and benefit return when you sell your principal residence to claim the full principal residence exemption.

1. What is the principal residence exemption?

The principal residence exemption is an income tax benefit that generally provides you an exemption from tax on the capital gain realised when you sell the property that is your principal residence.

Generally, the exemption applies for each year the property is designated as your principal residence

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2. What is changing about the reporting of the sale of a principal residence?

Starting with the 2016 tax year, individuals who sell their principal residence will have to report the sale on Schedule 3, *Capital Gains* of the *T1 Income Tax and Benefit Return*. Reporting will be required for sales that occur on or after January 1, 2016.

3. Why is this change being made?

This change will improve compliance and administration of the tax system.

4. Prior to this change, what did you have to report on your income tax return when you sold a property, in order to claim the principal residence exemption?

Previously, the CRA did not require any reporting related to the sale of a principal residence if the property was your principal residence for every year you owned it.

If the property was not your principal residence for every year you owned it (e.g., a different property, such as a cottage, was designated as your principal residence for one of the years during the same period of ownership), Form T2091 (IND), *Designation of a property as a principal residence by an individual (other than a personal trust)*, would have to be filed with the individual's *T1 Income Tax and Benefit Return*. The representative of a deceased person would have to use Form T1255, *Designation of a property as a principal residence by the legal representative of a deceased individual* instead.

5. Did this administrative practice extend to trusts?

The CRA's previous administrative practice did not apply to trusts. Trusts that designate a property as a principal residence for one or more tax years must complete Form T1079, *Designation of a Property as a Principal Residence by a Personal Trust* and attach it to their *T3 Trust Income Tax and Information Return* for the year in which the sale (or deemed disposition) occurred.

6. How will I report the sale of my principal residence on Schedule 3?

You will complete Schedule 3 and file it with your *T1 Income Tax and Benefit Return* for the year you sell the property. If the property was your principal residence for every year that you owned it, you will make the principal residence designation in your Schedule 3. In this case, the year of acquisition, proceeds of disposition and the description of the property are the information that will have to be reported. Schedule 3 will be modified accordingly. Form T2091 (or Form T1255) will still be required for the designation in the case the property was not your principal residence for all of the years that

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you owned it.

7. What should I do if I sold a property and want to claim the principal residence exemption but I forget to report the designation of principal residence on my income tax return for the year of sale?

For the sale of a principal residence in 2016 or later tax years, CRA will only allow the principal residence exemption if you report the sale and designation of principal residence in your income tax return. If you forget to make a designation of principal residence in the year of the sale, it is very important to ask the CRA to amend your income tax and benefit return for that year. Under proposed changes, the CRA will be able to accept a late designation in certain circumstances, but a penalty may apply.

The penalty is the lesser of the following amounts:

1. \$8,000; or
2. \$100 for each complete month from the original due date to the date your request was made in a form satisfactory to the CRA.

More information on late designations is available on the CRA website under [Late, amended, or revoked elections](#).

The CRA will focus efforts on communicating to taxpayers and the tax community the requirement to report the sale and designation of a principal residence in the income tax return. For dispositions occurring during this communication period, including those that occur in the 2016 taxation year (generally for which the designation would be required to be made in tax filings due by late April 2017) the penalty for late-filing a principal residence designation will only be assessed in the most excessive cases.

8. What do I report when I actually sell my principal residence, if I used part of it as my principal residence and another part for my business or to earn rental income?

If only a part of your home qualifies as your principal residence and you used the other part to earn or produce income, you may have to split the selling price and the adjusted cost base between the part you used for your principal residence and the part you used for other purposes (for example, rental or business). You can do this by using square metres or the number of rooms, as long as the split is reasonable.

Instructions will be provided in the guide T4037, *Capital Gains 2016*, on how to report the sale of your principal residence in this situation.

9. Does the new rule apply for deemed dispositions of property?

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Yes. The new rules apply for deemed dispositions. A deemed disposition occurs when you are considered to have disposed of property, even though you did not actually sell it. For example, a deemed disposition will occur if there is a change in use of the property:

- You change all or part of your principal residence to a rental or business operation.
- You change your rental or business operation to a principal residence.

When you change the use of a property, you are generally considered to have sold the property at its fair market value and to have immediately reacquired the property for the same amount. You have to report the disposition (and designation) of your principal residence and/or the resulting capital gain or loss (in certain situations) in the year the change of use occurs.

Refer to the T4037, *Capital Gains 2016*, once available, for more information.

10. Where can I find more information?

The CRA is committed to providing taxpayers with up-to-date information. The CRA encourages taxpayers to check its webpages often. All new forms, policies and guidelines will be posted as they become available.

Additional Q&As will be posted by the CRA in the coming weeks.

In the meantime, more information on the current administrative practice, legislative requirements and related information is available on the following CRA Webpages:

[Principal residence and other real estate](#)

[Income Tax Folio S1-F3-C2, Principal Residence](#)

[How does the Canada Revenue Agency address non-compliance in the real estate sector?](#)

[T4037, Capital Gains 2015](#)

Date modified: 2016-10-03