

# GMS Flash Alert

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## Canada - Plans to Alter Exemption Rules for Capital Gains on Principal Residence

Individuals and trusts may be affected by changes to Canada's principal residence exemption. The Canadian government is proposing amendments that will limit the ability of certain taxpayers to eliminate or reduce the capital gain on the sale of their home.

The Finance Department, on 3 October 2016, issued an announcement stating that, beginning with 2016, individuals will be required to report the disposition of a property for which they claim the principal residence exemption in their income tax returns (previously, individuals did not have to report the capital gain if the full gain was exempt).<sup>1</sup>

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### WHY THIS MATTERS

In particular, the proposed amendments are intended to make sure that permanent non-residents are not eligible for the exemption on any part of a gain from the disposition of a residence. As a result, some individuals – including globally-mobile employees who own homes in Canada that they claim as their principal residence – and trusts may no longer be able to designate their property as a principal residence in certain situations. Globally mobile employees working in Canada may want to have the facts of their situation reviewed by their usual KPMG or other tax professional to assess whether an exemption would be available for them.

Taxpayers subject to Canadian taxation and their tax service providers should be aware that there is now a new reporting requirement on personal tax forms. Previously, individuals did not have to report the capital gain on the sale of a principal residence if the full gain was exempt. Now they will have to report the disposition of a property for which they claim the principal residence exemption in their income tax returns, even if the exemption fully eliminates the capital gain. This requirement represents a new compliance obligation for the taxpayer.

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## Background

The changes to the principal residence exemption are included in part of a seven-page Notice of Ways and Means Motion that Finance tabled on 3 October 2016. Finance said these measures – in addition to announced changes to the mortgage insurance rules and a consultation process on lender risk sharing for government-backed insured mortgages – are in response to the effect of low interest rates and shifting attitudes towards debt and indebtedness on the housing market, especially in Toronto and Vancouver.

## Highlights of Proposed Tax Amendments – Effect on Individuals

### Permanent Non-Residents and Eligibility for Exemption

Finance has proposed amendments to the principal residence exemption rules so that an individual who was not resident in Canada in the year the individual acquired a residence will not be able to claim the exemption for that year. The proposed amendments are intended to help ensure that permanent non-residents are not eligible for the exemption on any part of a gain from the disposition of a residence. The amendments do this by amending the principal residence exemption calculation formula in the tax rules so that the additional year in the “one-plus rule” is only available to taxpayers who were resident in Canada during the year the property was acquired.

This change applies to dispositions that occur after October 2, 2016.

### New Reporting Requirements for 2016

Finance also announced that taxpayers will have to report the disposition of a property for which the principal residence exemption is claimed, even if the exemption fully eliminates the capital gain. This compliance change applies to tax years ending after October 2, 2016.

In the case of individuals, reporting will therefore be required for sales that occur on or after January 1, 2016, on their personal tax returns starting in 2016. The Canada Revenue Agency (CRA) says that, where taxpayers do not report the sale and do not designate the property as a principal residence on their income tax returns, the principal residence exemption will not be allowed.

## FOOTNOTE:

1 See: [http://www.fin.gc.ca/n16/data/16-117\\_2-eng.asp](http://www.fin.gc.ca/n16/data/16-117_2-eng.asp).

## RELATED RESOURCE

This article is excerpted, with permission, from “Finance Tightens Principal Residence Exemption,” in *TaxNewsFlash-Canada* (October 4, 2016, 2016-46), a publication of the KPMG International member firm in Canada. For more details, see the [report](#).

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