

# GMS Flash Alert



2023-236 | December 8, 2023

## Canada - Plans for Short-Term Rentals, UHT Rules in Fall Economic Statement

In the Fall Economic Statement,<sup>1</sup> Finance Canada, indicated it is planning changes to the short-term rental rules. It has also released additional clarifications to the new Underused Housing Tax (UHT) rules.

### WHY THIS MATTERS

With plans for changes to the short-term rental rules, the ability to claim expenses against short-term rental income may be impacted. This matters for assignees who plan to rent out their home while on assignment using a short-term rental platform, instead of entering into a long-term lease agreement.

Clarifications to the UHT rules could impact globally-mobile employees who may have a UHT filing requirement or for employers who provide housing for their assignees. The clarifications may be welcome news, as they lower penalties imposed for non-compliance, and certain specified entities that used to have UHT filing obligations will now be exempt from that obligation.

### Details: in Brief

#### Short-Term Rentals

The Fall Economic Update advises that taxpayers will no longer be able to claim certain income tax deductions related to expenses for short-term rental income. Specifically, taxpayers will not be able to claim deductions:

- For expenses incurred to earn short-term rental income, including interest expenses, in provinces and municipalities that have prohibited short-term rentals;

- Where short-term rental operators are not compliant with the applicable provincial or municipal licensing, permitting, or registration requirements.

This measure applies for expenses incurred on or after January 1, 2024.

### Underused Housing Tax Rules

Finance has released additional clarifications to the new Underused Housing Tax rules. (For related coverage, see [GMS Flash Alert 2023-083](#), April 14, 2023.) They have clarified that if the residential property is held by a Specified Corporation, Specified Partnership, or Specified Trust, these entities will now be considered “excluded owners” and will no longer have a filing obligation. (Previously they had to file the UHT return, but were exempt from the tax.) The updates also include an exemption for residential properties in certain lower-population areas that are held as a place of residence or lodging for employees, effective for 2023 and subsequent years.

Also, the UHT penalties have been reduced: the minimum non-compliance penalty is now \$1,000 for individuals (from \$5,000) and \$2,000 for corporations (from \$10,000) per failure, for 2022 and subsequent calendar years. (All dollar figures expressed are Canadian dollars.)

There are also updates to the rules on the vacation property exemption.

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## KPMG INSIGHTS

Globally-mobile employees subject to Canadian tax rules, as well as their employers, that are covered by the short-term rental rules or the Underused Housing Tax rules may wish additional information to better understand how the rules apply to them and what steps may need to be taken to be in compliance. If so, they should consult their qualified tax professional or a member of the GMS tax team with KPMG in Canada (see the Contacts section).

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## FOOTNOTE:

1 Finance Canada, "Fall Economic Statement 2023" at: <https://www.budget.canada.ca/fes-eea/2023/report-rapport/FES-EEA-2023-en.pdf> . Also, see the analysis from KPMG in Canada, "[Highlights of the 2023 Federal Fall Economic Update](#)" in *TaxNewsFlash-Canada* (November 21, 2023, Volume 2023-47).

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## Contact us

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