

Sale of a rental property or second home

1. PROPERTY INFORMATION

Building address:	
Owners with %	%
	%
	%
	%

2. SITUATION

Is this a donation between individuals? (Yes or No)	
Did the owner die during the year? (Yes or No)	
Did the owner die during the following year? (Yes or No)	
Are there multiple owners? (Yes or No)	
If yes, provide names, addresses, social security numbers, and each person's share. See above.	
Have you taken any depreciation over the years? (Yes or No)	
If yes, for which years? Provide tax returns for the years in which depreciation was taken.	

3. PURCHASE

Date of purchase of the property	
Purchase price of the building, according to notarized documents	\$
Crystallization in 1994? (yes or no), if yes, provide the amount and the corresponding documents.	\$
Outlays upon purchase paid by the buyer	
Extension (for example, adding a fireplace or garage)	\$
Transfer tax account (welcome tax)	\$
Real estate broker to do land searches	\$
Cost of decontaminating land	\$
Cost of the location certificate	\$
Cost to remove asbestos from building	\$

Sale of a rental property or second home

Property survey or appraisal costs		\$
Notary fees related to the purchase of the		\$
Building inspection fees		\$
Initial engineering or accounting costs		\$
Major renovations carried out shortly after acquisition (e.g. replacement of an aluminum-clad wall with a brick-clad wall)		\$
Other costs (specify) - see Additions tab		\$

4. SALE

Date of sale of the building		
Selling price of the building, according to notarized documents		\$

Disbursements during the sale paid by the seller

Notary fees		\$
Real estate agent and advertising		\$
Certificate of location		\$
Other costs (specify)		\$

*Please provide the most recent municipal tax bill with the **land and building evaluation amount***

5. DESIGNATION OF PRINCIPAL RESIDENCE

Did you live in this building at any point?	
If yes, what period?	
If so, what portion?	
If yes, do you wish to designate certain years as your primary residence? If yes, complete the non-rental tab.	

If it is vacant land, any undeducted portion of interest and property taxes is added to the cost of the land to reduce the capital gain on sale, only if it is held for rental or business income (not for personal use or as a long-term investment to obtain a capital gain).

Sale of a primary residence

1. PROPERTY INFORMATION

Building address:	<input type="text"/>
Owners with %	<input type="text"/> %
	<input type="text"/> %
	<input type="text"/> %
	<input type="text"/> %
	<input type="text"/> %
Lot or land registry number (see municipal tax account):	<input type="text"/>

2. PURCHASE AND SALE

Date of purchase	<input type="text"/>
Purchase price	<input type="text"/> \$
Additions (See Additions tab)	<input type="text"/> \$
Date of sale	<input type="text"/>
Selling price	<input type="text"/> \$

If you do not designate the property as your principal residence for all years, it is best to complete the rental tab to detail all expenses related to the purchase and sale. This reduces the capital gain.

3. DESIGNATION OF PRINCIPAL RESIDENCE

Did you live in this building at any point?	<input type="text"/>
If yes, what period?	<input type="text"/>
If so, what portion?	<input type="text"/>
If yes, do you wish to designate some years Or all years as your primary residence, so that these years are exempt from capital gains?	<input type="text"/>
Did you use the residence for rental income at any time during your ownership? If so, complete the rental tab.	<input type="text"/>

Sale of a primary residence

Starting with the 2016 tax year, any taxpayer who sells their principal residence is required to report basic information such as the date of acquisition, the proceeds of disposition and the description of the property on their income tax and benefit return in order to claim the full principal residence exemption.

This requirement applies to the disposition of a principal residence on or after January 1, 2016. In the past, they did not have to report this on the tax return if they designated it as their principal residence for all the years they owned it.

The taxpayer must report the sale and the gain (or loss) at the same time as the designation of principal residence, on Schedule 3 Capital Gains (or Losses) of their income tax return.

This is mandatory even if the capital gain is completely tax-exempt. If he forgets to make the principal residence designation in the year of sale, he can later request that the CRA amend his income tax and benefit return for that year to accept a late designation.

The latter may accept a late designation in certain circumstances but, even if it accepts it, it will apply a penalty, which will be the lowest of the following amounts at the federal level:

8 000 \$

\$100 for each full month from the initial filing due date to the date he submitted his application to the satisfaction of the CRA.

If only one property is designated for the entire year it is held, the taxpayer must tick box 1 in Schedule 3.

If the property was designated for all or some of the years it was held, Form T2091 (IND) Designation of Property as a Principal Residence by an Individual must be completed. This obligation applies not only to sales but also to other types of disposition.

Revenu Québec introduced the same requirement by requiring taxpayers to complete form TP-274- Designation of a Property as a Principal Residence with their income tax return. The taxpayer may pay a penalty of \$25/month up to a maximum of **\$2,500**, if he forgets to make the designation.

Le gain en capital sur la portion « terrain » d'un duplex ne peut pas être attribué uniquement à la portion « résidence principale » (interprétation fédérale # 2001-0112817). Il doit généralement être attribué de la même façon sur le terrain que sur la bâtisse selon l'ARC (interprétation fédérale # 2005-0157751E5). À titre de réflexion seulement, un contribuable ne pourrait-il cependant pas invoquer qu'une portion plus importante du terrain (sans être de 100 %) est attribuable à la résidence principale, car la cour arrière et l'entrée de stationnement sont à l'usage exclusif du propriétaire ou encore parce qu'un gros cabanon reposant sur le terrain de la cour est à l'usage exclusif du propriétaire? N'oubliez cependant pas qu'en déduisant annuellement un certain pourcentage des intérêts et impôts fonciers sur la portion « terrain » dans le calcul annuel du revenu net de loyer, le particulier aura généralement déjà indiqué aux autorités fiscales le pourcentage qu'il jugeait attribuable à la portion « résidence principale » du terrain (à moins que la période de détention fût brève).

We've carried out major renovations to our cottage, including replacing the roof and building a deck. Do we need to keep proof of these expenses for income tax purposes?

It is important to keep proof of these expenses. Your cottage expenses may affect the tax you will have to pay when selling or disposing of this property.

When the cottage is disposed of, whether during your lifetime or after your death, if it has increased in value, there will be a gain equal to the difference between the sale proceeds (or the FMV of the cottage if ownership is transferred to a non-arm's length third party for less than the FMV) and the total of the ACB and related selling costs. The ACB is the sum of the original purchase price of the property and the capital expenditures you made during the years you owned the home. Note that if you inherited the cottage from someone other than your spouse, the original price will be the FMV of the cottage at the time you inherited it. Other factors to consider are if you or your spouse owned the cottage before 1972, or if you or your spouse elected in 1994 to increase the ACB of your cottage by taking advantage of the \$100,000 capital gains exemption available at the time.

The excess of the proceeds of disposition, whether deemed or realized, over the ACB (and selling expenses) is generally considered a capital gain for income tax purposes. As mentioned, this gain could be reduced or even eliminated if the principal residence exemption can be used. If the exemption is not available or does not eliminate the capital gain entirely, half of the capital gain is added to your taxable income. Therefore, it may be beneficial to look for ways to minimize any gain, including keeping as detailed evidence of property-related costs as possible.

Determining which costs are actually capital expenditures that can be added to the property's ACB can be complicated. The attached checklist can help identify key areas to consider when determining your cottage's ACB and the types of supporting documentation to keep to validate eligible costs.

In summary

Summer is a great time to escape the demands of city life and retreat to the cottage, especially during a global pandemic. With the demand for cottage rentals and purchases skyrocketing, many Canadians are looking to own one, whether for personal use or as an investment. With proper planning, you may be able to avoid your vacation property costing more than you expected. Tax planning to consider all potential income tax implications when buying, renting, or selling a cottage can help you minimize additional expenses and avoid inconvenience.

CHECKLIST OF PBR ELEMENTS RELATED TO COTTAGE OWNERSHIP AND REQUIRED DOCUMENTS

Accurate documentation of your cottage's cost is crucial if the CRA ever requires proof of the property's ACB. Proper record keeping includes retaining the original purchase documents you received when you purchased the cottage, as well as any receipts or invoices that support subsequent renovations or improvements.

1) Initial acquisition of the property

The following items from the purchase contract as well as other costs (documented by invoices, statements and proof of payment) must be provided.

Proof of the value of the property at the time of taking possession, for example an appraisal, in the case of an inheritance or a gift

Purchase price of the cottage for any purchase after 1971 (other rules apply in the case of properties purchased on or before December 31, 1971, or the choice to increase the ACB made in 1994)

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2) Real estate transfer rights at the time of acquisition

3) Utility connection fees

4) Brokerage commissions

5) Real estate inspections

6) Legal fees

7) Cost of survey or title insurance

8) Other disbursements under the purchase agreement, excluding reimbursements of annual fees to the former owner such as property tax and utility fees paid prior to closing

9) Repairs and maintenance related to properties in a deteriorated state at the time of acquisition; as a general rule, it is possible to include costs not normally eligible for the opening ACB (costs related to roof replacement, purchase of new plumbing fixtures and fittings, replacement of flooring, etc.) in the case of a purchase price negotiated based on the deteriorated state of the property (i.e. a purchase price revised downwards due to the poor condition of the cottage and the costs incurred as a result)

Improvements not directly related to the building

10) Improvements to the land not related to the maintenance of existing features may also be included. Costs could include the installation of a new septic tank, a new well, a water system, etc. Please also be sure to include improvements to the land, such as correcting drainage problems, constructing a driveway, right-of-way or trails, or repairing decks or docks.

Transportable items are generally not eligible (although the definition of a transportable item should be carefully considered from a practical perspective). Required documentation should include invoices and proof of payment.

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Renovations

11) Any changes to the structure of a cottage that create an element not present at the time of acquisition will generally be considered an addition to the PBR. Documentation should include invoices (including details of the nature of the improvement work) and proof of payment. The list below shows some examples.

12) Adding rooms or finishing a basement

13) Construction of a terrace or replacement of a terrace with a larger one

14) Moving walls or partitions within the structure

15) Construction of a bathroom, including the cost of sanitary ware



Routine maintenance and building improvements

Perhaps the most difficult task is deciding whether repair and maintenance costs are additions to the ACB or simply ongoing expenses that cannot be included in the ACB price. Generally, this involves determining whether the structure has been improved during the time you have owned the cottage, or whether the repairs have simply restored the building to its previous condition.

Replacing the roof is a good example. If the cottage's roof was in good condition when you first took over, then simply replacing the shingles would likely be considered a routine maintenance expense. However, if a different, better-quality roof was installed to replace the existing roof, this expense could be considered an addition to the ACB. Furthermore, it is essential that the documents clearly demonstrate the reasons why the improvements were made to the property. Here are some other examples of possible improvements to a property.

New windows and doors

16) New flooring and new paneling

17) Replacement of sanitary appliances and accessories in the bathroom or kitchen



Finally, one last note for DIY-loving cottage owners: you cannot count the time you spent on renovations as costs, but you can use the cost of materials used to make the improvements.

Transferring real estate during your lifetime: how to do it?

March 30, 2021 by National Bank

rental property or a cottage to them? It's possible, but first take the time to analyze all the scenarios available to you. There are several solutions, each with advantages, disadvantages, and significant tax obligations. Here's an overview of your options.

Should you transfer your property during your lifetime or upon your death?

It can be beneficial to transfer real estate to loved ones, such as children, during your lifetime. By choosing this option, you're helping a family member during your lifetime, which gives you a sense of accomplishment.

But it's not all good. For example, if the proceeds from the sale of this property are part of your retirement strategy, you'll need to review your plan. All the more reason to weigh the pros and cons in order to properly prepare for the transfer of this property. Here are several scenarios.

How to transfer real estate during your lifetime?

1. What happens if you donate real estate during your lifetime?

A gift of real estate is the simplest way to transfer real estate during your lifetime. It is a gratuitous act, meaning that you, the donor, agree to transfer the property without financial compensation to your child, the donee. While this strategy is very honorable on your part, it is important to know that, from a tax perspective, this gift receives the same treatment as any other type of disposition or transaction.

So the donor and donee are deemed to have made a transaction at the fair market value of the property, even if no money was exchanged. This means that you suffer an immediate tax impact (on capital gains and depreciation recapture), even if it is a real estate gift during your lifetime.

On the other hand, the tax authorities will consider that your donees acquired your real estate at its fair market value. Can your children afford the amounts required for this type of gift. Will your children also be able to pay the legal fees and financial costs associated with the property, such as taxes? Hence the importance of discussing not only with an expert, but also with your loved ones.

Beware of selling real estate for the symbolic price of \$1

Let's debunk the myths surrounding selling real estate to a loved one for a nominal \$1. Many people (wrongly) believe that this strategy is tax-efficient for both parties.

First, tax authorities consider a \$1 sale to be a transaction where you don't want to disclose the actual sale price. Therefore, you will still be taxed on 50% of the capital gain of your property's market value.

For example, you bought a house for \$50,000 40 years ago and it is now worth \$200,000. Even if you sell the property for \$1, you will be taxed on 50% of the capital gain, that is, on \$75,000 (50% of \$150,000). This is a significant amount of money and will also result in a significant amount of tax to pay.

the property for \$1. So, if they eventually resell the property for \$200,000, for example, your children will be taxed on a capital gain of \$199,999 (\$200,000 minus \$1).

2. What happens if you sell at fair market value?

According to several experts, selling is the preferred method for transferring real estate during one's lifetime. Generally, the price must be paid in full to the seller at the time of sale.

of the sale, but also the financing. For example, you could agree to finance your children so they can buy your property while keeping the balance of the sale price.

This loan must necessarily bear interest at a rate equal to or higher than the market rate or the rate prescribed by the government. The interest must be repaid to the seller no later than 30 days after the end of the year to which it relates. In addition, you can spread your capital gain over a period of up to five years.

More simply, this way of doing things has the following advantages and disadvantages:

Benefits :

You will have an immediate inflow of funds. However, if you finance the buyer, your inflow of funds will be

It is a simple and inexpensive type of transaction;

If there is financing, you have the option of using the capital gains reserve to defer your taxation for up to five

Disadvantages:

You will have an immediate tax impact upon sale: capital gain taxable at 50% and recovery of depreciation

If there is financing, your tax burden will have to be paid from your other assets, since the sale price will not be