



JANUARY 2018

TAXES FOR NON-RESIDENT PROPERTY OWNERS

Congratulations on purchasing property in Canada! Rental property can be a significant source of income. As a non-resident property owner, it is important you understand your responsibility to report that income for tax purposes. This brochure outlines some of the more general issues surrounding non-resident taxation and will answer some of the most common questions that non-resident property owners typically ask.

CANADIAN TAX AT A GLANCE

- ▶ Tax in Canada is administered by the Canada Revenue Agency (CRA).
- ▶ Income tax in Canada is determined based on revenue earned net of any tax-deductible expenses. The tax rates applicable can vary; for individuals they *begin* at 22%. For non-resident corporations, the rates begin at 25%. Please note that sales taxes (GST) are separate.
- ▶ The taxation year runs from Jan. 1 to Dec. 31 for individuals.
- ▶ Tax returns are generally due either June 15 or June 30, depending on the type of return required. (For more information, see *When are income tax returns due?*)

NON-RESIDENT WITHHOLDING TAX

Income tax for non-residents is collected at the source of payment. The CRA requires that 25% of the gross rental revenue (the amount collected directly from your tenant before any expenses) be remitted as a prepayment of your taxes. If you have a property manager, it is required to withhold and remit this amount to the CRA on your behalf. If not, you will be required to remit the 25% yourself. This withholding is a prepayment of income taxes and will typically exceed the actual income taxes owing. As a result, a portion of the tax withheld will usually be refunded. However, the CRA will keep the full amount of prepaid tax if you do not file the appropriate Canadian income tax return by the due date.

REDUCING THE WITHHOLDING TAX

The withholding tax can be reduced if you, as a non-resident, and an agent acting on your behalf (normally the property manager) jointly sign and file either an NR6 election or an 805 Waiver annually, depending on the property type. CRA approval must also be obtained. These forms should be filed as soon as you purchase any property that you intend to earn income from, and before the beginning of each taxation year thereafter. BDO typically prepares NR6 and 805 applications in September and October each year.

Please contact BDO's Whistler office for assistance in completing the required forms.



TERMINOLOGY

NR6 ELECTION — This is an application to the CRA which provides an estimate of the revenue and associated expenses attributable to your property for the year. If approved by the CRA, it reduces your withholding tax to 25% of net income after deducting your expenses. This election is used for section 216 rental properties.

805 WAIVER — This is a request for a “comfort letter” from the CRA, which affirms that the CRA will not require the property manager to withhold 25% of gross income. It confirms that the taxpayer will file the appropriate income tax return to report their income and pay any required tax by the due dates. This waiver is used for section 115 business/hotel properties.

NR4 SLIP — This is issued to property owners on an annual basis which reports the gross income for the property and any tax withheld on that amount. The NR4 slip must be attached to your income tax return in order to confirm you have prepaid taxes and are to receive a refund. The NR4 slip must be issued to you by your property manager by March 31.

SECTION 216 PROPERTY — The majority of properties earn rental income and require a section 216 return.

SECTION 115 PROPERTY — A section 115 property is a property which generates business income.

Generally, income earned from a property is considered business income if it is operated as a hotel. A property that earns business income is required to file a section 115 return.

WHEN ARE INCOME TAX RETURNS DUE?

- ▶ If you have a balance owing on your income tax return the payment is due by April 30 even if your actual return is not due until a later date.
- ▶ If you have an NR6 election in place: June 30.
- ▶ If you have a section 216 property without an NR6 election in place, you have up to two years to file. After this time, you may no longer be able to receive a refund of the withholding taxes.
- ▶ If you have an 805 waiver in place: June 15.
- ▶ If you have a section 115 property without an 805 waiver in place: June 15.
- ▶ Most GST returns are due on March 31.

Failure to meet these deadlines will result in interest and penalties.

GOODS AND SERVICES TAX (GST)

The GST is a 5% tax that is charged on most goods and services, including short-term rental accommodation, and operates much like other value-added taxes in other countries.

If you are renting your property on a nightly basis, you may be required to register for GST and claim a refund or defer payment of GST on expenditures related to your rental property. This includes any GST payable on the purchase of your property. If you intend to enjoy your property for personal use, whether occasionally or frequently, your eligibility may be reduced or eliminated.

Please consult BDO's Whistler office for assistance in determining if registering for GST is right for you.

WHAT INFORMATION DO I NEED TO FILE MY RETURNS?

- ▶ Revenue and expense statement for the year (issued by your property manager).
- ▶ NR4 slip prepared by your property manager.
- ▶ Any revenue collected from private rentals.
- ▶ Tourism Whistler dues (if the property is located in Whistler).
- ▶ Insurance fees.
- ▶ Strata fees.
- ▶ Mortgage interest (obtain a copy of the mortgage interest statement issued by your bank).
- ▶ Invoices for repairs and maintenance.
- ▶ Utility bills.
- ▶ Municipal property taxes [Resort Municipality of Whistler (RMOW) if the property is in Whistler].
- ▶ The number of days the property was used for personal purposes.

WHAT HAPPENS WHEN THE PROPERTY IS SOLD?

When real estate in Canada is sold by a non-resident, Canadian income taxes will be payable if the selling price is greater than the original cost of the property. A prepayment of 25% of your total capital gain is calculated and submitted with a T2062 form to the CRA and must be filed within 10 days of the disposition, but preferably sooner. Legal counsel is required to hold back between 25% and 50% of your sales proceeds, in trust, until the CRA has processed the T2062 application form and received the required



payment. The CRA will require documentation at the time of sale to support the cost of the property being sold. It is important that such documents be kept on file to avoid unnecessary income taxes on capital gains.

DOCUMENTATION REQUIRED INCLUDES THE FOLLOWING:

- ▶ Property purchase documents, usually the purchaser or buyer statement of adjustments and/or assignment document.
- ▶ Invoices for all capital type items or improvements that will be sold with the property.
- ▶ Canada Customs documents for goods imported into Canada. These should be requested from Canada Customs at the time the goods are imported.
- ▶ Any prior tax returns and associated Capital Cost Allowance schedules.

FOR MORE INFORMATION ON HOW BDO'S WHISTLER OFFICE CAN HELP WITH YOUR TAX-RELATED ISSUES, PLEASE CONTACT:

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