Canada Revenue Agency   Agence du revenu du Canada

Rental Income

This guide is only available in electronic format.

T4036(E) Rev. 17

Canada

Is this guide for you?

Use this guide if you had rental income from real estate or other property. The information in this guide relates mainly to renting real estate, but some of the information also applies to other types of rental property.

This guide will help you determine your gross rental income, the expenses you can deduct, and your net rental income or loss for the year. It will also help you fill in Form T776, *Statement of Real Estate Rentals*.

To determine if your income is from property or from a business, see Chapter 1.

To find out if you are a partner of a partnership or a co-owner, see "Are you a co-owner or a partner of a partnership?" on page 7.

If you are looking to report income or expenses from accommodation sharing, search accommodation sharing at **canada.ca.**

We have defined some of the terms used in this guide in "Definitions" on page 4. You may want to read them before you start.

Throughout this guide, we refer to other guides, forms, interpretation bulletins, information circulars, and income tax folios.

The term **income tax return** used in this guide has the same meaning as **income tax and benefit return**.

Our publications and personalized correspondence are available in braille, large print, e-text, or MP3 for those who have a visual impairment. Find more information at **cra.gc.ca/alternate** or by calling **1-800-959-8281**.

This guide uses plain language to explain the most common tax situations. It is provided for information only and does not replace the law.

Unless otherwise noted, all legislative references are to the *Income Tax Act* and the *Income Tax Regulations*.

La version française de cette publication est intitulée *Revenus de location.*

Table of contents

Definitions

Arm's length – refers to a relationship or a transaction between persons who act in their separate interests. An arm's length transaction is generally a transaction that reflects ordinary commercial dealings between parties acting in their separate interests.

"Related persons" are not considered to deal with each other at arm's length. Related persons include individuals connected by blood relationship, marriage, common-law partnership or adoption (legal or in fact). A corporation and another person or two corporations may also be related persons.

"Unrelated persons" may not be dealing with each other at arm's length at a particular time. Each case will depend upon its own facts. The following criteria will be considered to determine whether parties to a transaction are not dealing at arm's length:

- whether there is a common mind which directs the bargaining for the parties to a transaction;
- whether the parties to a transaction act in concert without separate interests; "acting in concert" means, for example, that parties act with considerable interdependence on a transaction of common interest; or
- whether there is de facto control of one party by the other because of, for example, advantage, authority or influence.

For more information, see Income Tax Folio S1-F5-C1, *Related persons and dealing at arm's length.*

Available for use – you can claim capital cost allowance (CCA) on a rental property only when it becomes available for use.

A **rental property, other than a building,** usually becomes available for use on the earliest of:

- the date you first use it to earn income;
- the second year after the year you acquired the rental property; or
- the time just before you dispose of the property.

A **rental property that is a building**, or part of a building, usually becomes available for use on the earliest of:

- the date when a fully constructed building is purchased or construction of the building is completed;
- the date that you rented out 90% or more of the building;
- the second year after the year you acquired the building; or
- the time just before you dispose of the building.

When determining the available-for-use date, a renovation, an alteration, or addition to a building should be considered as a separate building.

You may be able to claim CCA on a building that is under construction, renovation, or alteration before it is **available for use**. You can deduct CCA that you have available on such a building when you have net rental income from it. The CCA that you can deduct is restricted to the amount of net rental income you have after you deduct any soft costs for constructing, renovating, or altering the building. For an explanation of soft costs, see "Construction soft costs" on page 11.

Capital cost allowance (CCA) – in the year you buy a depreciable property, you cannot deduct its full cost. Depreciable property, such as a building, furniture, or equipment, wears out or becomes dated. You can deduct a percentage of the property's capital cost over a period of several years. Depreciation is the part of the cost you can deduct that allocates part of the cost of the property to the current fiscal year. The term capital cost allowance is used for income tax purposes.

Capital cost – a one-time, set-up cost of your rental property after which there will only be recurring operational or running costs:

- the purchase price, not including the cost of land;
- the part of your legal, accounting, engineering, installation, and other fees that relate to the purchase or construction of the rental property, excluding the part that applies to the land;
- the cost of any additions or improvements you made to the rental property after you acquired it, provided you have not claimed these costs as current expenses; and
- a building's soft costs (such as interest, legal and accounting fees, and property taxes) related to the period you are constructing, renovating, or altering the building, if you have not deducted these expenses as current expenses.

For more information on current expenses, see "Current or capital expenses" on page 9.

Legal and accounting fees for buying a rental property are allocated between the cost of the land and the capital cost of the building. If land is acquired for rental purposes or for constructing a rental property, the legal and accounting fees apply to the land.

Capital property – generally any property, including depreciable property, you buy for investment purposes or to earn business income. Common types of capital property include principal residences, cottages, stocks, bonds, land, buildings, and equipment used in a business or rental operation.

Common-law partner – this applies to a person who is **not your spouse** with whom you are living in a conjugal relationship, and to whom at least **one** of the following situations applies. He or she:

(a) has been living with you in a conjugal relationship, and this current relationship has lasted at least 12 continuous months;

> **Note**
> The term "12 continuous months" includes any period that you were separated for less than 90 days because of a breakdown in the relationship.

(b) is the parent of your child by birth or adoption; or

(c) has custody and control of your child (or had custody and control immediately before the child turned 19 years of age) and your child is wholly dependent on that person for support.

Depreciable property – is usually capital property used to earn income from a business or property. You can claim a capital cost allowance (CCA) on depreciable property. The capital cost can be written off as CCA over a number of years. Depreciable properties are grouped into classes. For example, diggers, drills, and tools acquired that cost $500 or more belong in Class 8. You have to base your CCA claim on the specific rate assigned to each CCA class of property.

Fair market value (FMV) – generally, it is the highest dollar value that you can get for your property in an open market, from an informed and willing buyer and seller that are dealing at arm's length.

Multiple-unit residential building (MURB) – a rental property in either Class 31 or 32 that has at least two self-contained residential units.

Motor vehicle – an automotive vehicle designed or adapted for use on highways and streets. A motor vehicle does not include a trolley bus or a vehicle designed or adapted to be operated only on rails.

Non-arm's length – generally refers to a relationship or transaction between persons who are related to each other.

However, a non-arm's length relationship might also exist between unrelated individuals, partnerships or corporations, depending on the circumstances. For more information, see the definition of "Arm's length".

Proceeds of disposition – generally, the amount you received or will receive for your property. In most cases, it refers to the sale price of the property. It could also include compensation you received for property that has been destroyed, expropriated, or stolen.

Rental income – income you earn from renting a property that you own.

Rental operation – services you provide within your rental property to your tenants such as heat, lighting, laundry, cleaning or security.

Rental property – generally, a building or certain leasehold interests owned by a taxpayer(s) or a partnership that is mainly used to generate gross revenue from rent.

Spouse – a person to whom you are legally married.

Undepreciated capital cost (UCC) – refers to the balance of the capital cost left for further depreciation at any given time. The amount of CCA you claim each year will lower the UCC of the property.

Chapter 1 – General information

This chapter explains the general information you need to have before you fill in Form T776, *Statement of Real Estate Rentals*.

Rental income is income you earn from renting property that you own. You can own the property by yourself or with someone else. Rental income includes income from renting:

- houses;
- apartments;
- rooms;
- space in an office building; and
- other real or movable property.

Rental income can be either income from property or business. Income from rental operations is usually income from property. Use this guide only if you have rental income from property.

Do you have rental income or business income?

To determine whether your rental income is from property or business, consider the number and types of services you provide for your tenants.

In most cases, you are earning an income from your property if you rent space and provide basic services only. Basic services include heat, light, parking, and laundry facilities. If you provide additional services to tenants, such as cleaning, security, and meals, you may be carrying on a business. The more services you provide, the greater the chance that your rental operation is a business.

For more information about how to determine if your rental income comes from property or a business, see archived Interpretation Bulletin IT-434, *Rental of Real Property by Individual*, and its Special Release.

If your rental operation is a business, do not use this guide. Instead, see Guide T4002, *Self-employed Business, Professional, Commission, Farming, and Fishing Income*.

Goods and services tax/harmonized sales tax (GST/HST) new residential rental property rebate

Section 256.2 of the *Excise Tax Act* allows landlords who buy or build new residential housing, substantially renovate existing housing, build an addition to multiple-unit housing, or convert a commercial property into housing, to get a GST/HST new residential rental property rebate.

To qualify for this rebate, landlords must rent out housing for long-term use by individuals as their **primary** place of residence. The rebate may also be available to persons who provide land leases for residential use. This can include the lease of sites in a residential trailer park.

For more information, see Guide RC4231, *GST/HST New Residential Rental Property Rebate*.

If you are applying for a new residential rental property rebate, use Form GST524, *GST/HST New Residential Rental Property Rebate Application.* If you are claiming a rebate for multiple unit housing, such as an apartment building or a triplex (excluding condominium units and a duplex), you also need to fill in Form GST525, *Supplement to the New*

Residential Rental Property Rebate Application – Co-op and Multiple Units.

To find out if other GST/HST rebates apply, see the following forms:

- RC7003-ON, Ontario Retail Sales Tax (RST) Transitional New Housing Rebate for Non-Registrants First Resellers;
- RC7003-PE, Prince Edward Island Provincial Sales Tax Transitional New Housing Rebate for Non-registrant First Resellers;
- RC7002-PE, Prince Edward Island Provincial Sales Tax Transitional New Housing Rebate – Apartment Buildings;
- RC7001-PE, Prince Edward Island Provincial Sales Tax Transitional New Housing Rebate – Residential Condominiums; and
- RC7000-PE, Prince Edward Island Provincial Sales Tax Transitional New Housing Rebate.

GST/HST rebate for partners

To determine if you are a partner, see "Are you a co-owner or a partner of a partnership?" on page 7.

If you are an individual who is a member of a partnership, you may be able to get a rebate for the GST/HST you paid on certain expenses. The rebate is based on the GST/HST you paid on expenses you deducted from your share of the partnership income on your income tax and benefit return. Special rules apply if your partnership paid you an allowance for those expenses. For more information, see "Allowances" in Guide RC4091, *GST/HST Rebate for Partners*.

As an individual who is a partner, you may qualify for the GST/HST partner rebate if:

- the partnership is a GST/HST registrant; and
- you paid GST/HST on expenses that:
  - you did not incur for the partnership; and
  - you deducted from your share of the partnership income on your income tax and benefit return.

Examples of expenses subject to GST/HST are vehicle costs, meals, and entertainment. The rebate may also apply to the GST/HST you paid on motor vehicles, musical instruments, and aircraft, for which you deducted CCA.

The eligible part of CCA is the one that you deduct on your income tax and benefit return in the tax year that relates specifically to a motor vehicle, musical instrument, or aircraft on which you paid GST/HST. It would also be eligible for the rebate to the extent that the partnership used the property to make taxable supplies.

If you deduct CCA on more than one property of the same class, you have to separate the portion of the CCA of the property that qualifies for the rebate from the CCA for the other property. If any part of the rebate relates to the CCA deduction for a motor vehicle, a musical instrument, or an aircraft, you have to reduce the **undepreciated capital cost (UCC)** of the related property by that part of the rebate.

File Form GST370, *Employee and Partner GST/HST Rebate Application*, to claim your GST/HST rebate for partners. If you get this rebate, you have to include it in your income for the tax year in which you receive it.

For example, if in 2017 you receive a GST/HST rebate for the 2016 tax year, you have to include the amount of the rebate on your income tax and benefit return for 2017:

- Report on Form T776, in "Expenses" at line 9974, the GST/HST rebate amount for partners that pertains to eligible expenses other than the CCA.
- In column 2 of Area A - Calculation of capital cost allowance claim, reduce the UCC for the beginning of 2017 by the rebate part that relates to the eligible CCA.

For more information, see Guide RC4091, *GST/HST Rebate for Partners*.

Keeping records

Keep detailed records of all the rental income you earn and the expenses you incur. You have to support your purchases and operating expenses with:

- invoices;
- receipts;
- contracts; or
- other supporting documents.

Do not send your records with your income tax and benefit return. Keep them in case we ask to see them. We may not allow all or part of your expenses if you do not have receipts or other documents to support them.

For more information on operating expenses, see "Chapter 3 – Expenses" on page 9.

Generally, you must keep your records for six years from the end of the tax year to which they relate. For more information about keeping records, go to **canada.ca/taxes-records**.

Chapter 2 – Calculating your rental income or loss

If you received income from renting real estate or other real property, you have to file a statement of income and expenses.

Even though we accept other types of financial statements, we encourage you to use Form T776.

Form T776 includes areas for you to enter your gross rents, your rental expenses, and any CCA. To calculate your rental income or loss, fill in the areas of the form that apply to you.

This chapter explains how to calculate your rental income or loss, as well as fill in the "Income" and "Expenses" parts of the form.

Rental losses are not allowed if your rental operation is a cost-sharing arrangement rather than an operation to make a profit.

Filling out Form T776, *Statement of Real Estate Rentals*

If you are a **sole proprietor**, fill in all the parts and lines on the form that apply to you.

You only have to fill in this form if you have a rental operation and you are reporting a rental income or loss.

Part 1 – Identification

Fill in this part to identify yourself and your real estate rentals.

Fiscal year:

If this is the first year of operation, enter the year, month, and day you began your rental operation. Otherwise, enter January 1 of the current year.

All rental properties have a December 31 year-end. In the "to:" field, enter the current tax year.

Are you a co-owner or a partner of a partnership?

Most of the time, if you own the rental property with one or more persons, we consider you to be a co-owner. For example, if you own a rental property with your spouse or common-law partner, you are a co-owner.

In some cases, if you are a co-owner, you have to determine if a partnership exists. A partnership is a relationship between two or more people carrying on a business, with or without a written agreement, to make a profit. If there is no business in common, there is no partnership. That is, co-ownership of a rental property as an investment does not make a partnership. To help you determine if you are in a partnership, see the partnership law for your province or territory. For more information, see Income Tax Folio S4-F16-C1, *What is a Partnership?*

A partnership that carries on a business in Canada, or a Canadian partnership with Canadian or foreign operations or investments, has to file a T5013 information return for each fiscal partnership if:

- at the end of the fiscal period, the partnership has an absolute value of revenues plus an absolute value of expenses of more than $2 million, or has more than $5 million in assets; or
- at any time during the fiscal period:
  - the partnership is a tiered partnership (a partnership which has a partner that is itself a partnership);
  - the partnership has a corporation or a trust as a partner;
  - the partnership invested in flow-through shares of a principal-business corporation that incurred Canadian resource expenses and renounced those expenses to the partnership; or
  - we request one in writing.

If you are a partner in any of these types of partnerships, you should get two copies of a T5013 slip, *Statement of Partnership Income*.

For more information on this return, go to **canada.ca/en/revenue-agency/services/tax/businesses/topics/sole-proprietorships-partnerships.html** or see T4068, *Guide for the Partnership Information Return (T5013 Forms)*.

If you determine that you are a partner in a partnership and you received a T5013 slip, fill in only the following fields on Form T776:

- Enter your nine-digit partnership business number.
- Enter your rental property ownership percentage in the "Percentage of ownership" box.
- Enter the amount from box 110 (or 107 if it is a limited partnership) of your T5013 slip at amount 18.

You may need to adjust your share of the net partnership income (loss) on amount 18 if one of the following apply to you:

- received a GST/HST rebate for partners (see "Line 9974 – GST/HST rebate for partners received in the year" on page 15)
- are claiming an amount of deductible expenses you had as a partner that you did not deduct elsewhere on Form T776 (see "Line 9943 – Other expenses of the partner" on page 15)

Enter your net income (loss) at line 9946 by subtracting your expenses from the personal portion of the expenses.

If you are in a partnership and you do not receive a T5013 slip, or if you are a co-owner, fill in all of the parts in Form T776 that apply to you. Follow the special instructions in this chapter to fill in lines 8299, 9369, 9936, 9943, and 9946. Fill in Part 2 – Details of other co-owners and partners on the form.

Tax shelter identification number

Enter your tax shelter identification number found on your T5013 slip.

We consider a tax shelter to include an investment that can be reasonably expected, based on any statement, representation, or promotional literature, to provide federal tax credits, or a combination of federal tax credits and losses or deductible amounts that are equal to or over a buyer's net cost in any of the first four years.

The total of the federal tax credits and losses or other deductible amounts would be equal to, or greater than, the cost of your share of the investment after deducting the prescribed benefits.

The cost of your interest in the property has to be reduced by the prescribed benefits you or a person with whom you do not deal at arm's length will receive or benefit from. Prescribed benefits include provincial or territorial tax credits, revenue guarantees, contingent liabilities, limited recourse debt, and rights of exchange or conversion.

To claim deductions or losses from tax shelter investments, attach to your income tax and benefit return the T5003 slip, *Statement of Tax Shelter Information*, and the T5013 slip, if applicable. Also attach a completed Form T5004, *Claim for Tax Shelter Loss or Deduction*. Make sure your form identifies your tax shelter identification number.

> **Note**
> Tax shelter numbers are used for identification purposes only. They do not guarantee that taxpayers are entitled to receive the proposed tax benefits.

If this is the first year you are making a claim for your tax shelter, include a copy of Form T5003 with your income tax and benefit return. If the tax shelter is a partnership, include a T5013 slip with your return.

For more information on tax shelters, go to **canada.ca/en/revenue-agency/services/tax/businesses/topics/tax-shelters.html**.

Part 2 – Details of other co-owners and partners

Fill in this part if you are a co-owner or a partner in a partnership.

Part 3 – Income

List the address of your rental property and the number of units you rented.

You can receive rental income in the form of:

- cash or cheques;
- kind (goods or commodities instead of cash); or
- services.

If your tenant pays you in cash or by cheque, include the total rents you earned in the year at line 8141 in the "Gross rents" column. If your tenant pays you in kind or with services, report their fair market value in "Other related income" at line 8230.

Example
Glenn is a tenant in an apartment building. He owns a truck with a plow on it. His landlord, Sonya, asked him to plow the parking lot after every snowfall. Sonya does not pay Glenn cash for his work, but she reduces his monthly rent accordingly.

Sonya reports the rent she charges Glenn at line 8141 as "Gross rents," and the fair market value of Glenn's services as "Other related income," at line 8230. She then claims the fair market value of Glenn's snowplowing services as an expense that relates to her rental operation.

How to calculate your rental income

Report the rental income you earned in the calendar year from January 1 to December 31.

In most cases, you calculate your rental income using the **accrual method**. For this method you:

- include rents in income for the year in which they are due, whether or not you receive them in that year
- deduct your expenses in the year you incur them, whether you pay them in that period or not

If you have almost no amounts receivable and no expenses outstanding at the end of the year, you can use the **cash method**.

For this method you:

- include rents in income in the year you receive them
- deduct expenses in the year you pay them

You can use the cash method only if your net rental income or loss would be almost the same if you were using the accrual method.

We use the accrual method for the examples in this guide.

Who reports the rental income or loss?

The person who owns the rental property has to report the income or loss. If you are a co-owner of the rental property, your share of the rental income or loss will depend on your share of ownership.

The rental income or loss percentage you report should be the same for each year unless the percentage of your ownership in the property changes.

> **Note**
> As the owner, you are the only one who can use the related interest expense to calculate your rental income or loss, even if someone else guaranteed your loan or mortgage. For more information, see "Line 8710 – Interest and bank charges" on page 12.

For more information on reporting rental income between family members, see archived Interpretation Bulletin IT-510, *Transfers and Loans of Property Made After May 22, 1985 to a Related Minor*, and archived Interpretation Bulletin IT-511, *Interspousal and Certain Other Transfers and Loans of Property.*

Line 8230 – Other related income

Rental income may include more than the rent you receive each month. It can also include income from the following sources.

Premiums and leases – You may receive an amount for one of the following:

- granting or extending a lease or sublease;
- permitting a sublease
- cancelling a lease or sublease.

Report all or part of these amounts as "Other related income" at line 8230.

Sharecropping – You can earn income from renting farmland either in cash or as a share of the crop. Report any cash payments as rent in the "Gross rents" column on Form T776. Report the fair market value of any crop share you earn on a sharecrop basis as "Other related income" at line 8230.

Line 8299 – Gross rental income

Your gross rental income is your total "Gross rents," on Form T776. Enter this amount at line 160 of your income tax and benefit return. If you are a co-owner of the rental property or a partner in a partnership that does not need to provide you with a T5013 slip, enter the gross rental income for the **entire** property at line 160. Do not split the gross income according to your ownership share.

Uncollectible rent

You can have losses from uncollectible debts or a portion of an uncollectible debt. You can deduct this amount from your gross rental income.

To be eligible, the debt must:

- be owing to you at the end of the tax year
- have become uncollectible during the tax year
- have been included or deemed to have been included in your income for the year or a previous tax year

Proof is required to determine an uncollectible debt. This could be a notice to creditors from the trustee in bankruptcy, correspondence from the tenant, or some other assurance that the tenant was pursued without success of receiving a payment from them. Only debts that are certain of being uncollectible are to be considered bad debts.

You may have a case where you do not receive payment for rent, which is referred to as a bad debt. If, during the year, you receive any payment that you wrote off in a previous year as bad debt, you have to include the amount in your income for the current year.

> **Notes**
> If you are reporting income on a cash basis, there should be no receivables and no claim for uncollectible rents.
>
> If you are not dealing at arm's length with the tenant, the factors used to establish the uncollectible amount would need to be verified.

For more information, see archived Interpretation Bulletin IT-442R, *Bad debts and reserves for doubtful debts*.

Chapter 3 – Expenses

You can deduct any reasonable expenses you incur to earn rental income. The two basic types of expenses are:

- current expenses; and
- capital expenses.

Current expenses are recurring expenses that provide a short-term benefit. For example, a current expense is the cost of repairs you make to keep a rental property in the same condition as it was when you acquired it. You can deduct current expenses from your gross rental income in the year you incur them.

As for capital expenses, they provide a benefit that usually lasts for several years. For example, costs to buy or improve your property are capital expenses. Generally, you cannot deduct the full amount of these expenses in the year you incur them. Instead, you can deduct their cost over a period of several years as CCA. For more information on CCA, see Chapter 4.

Capital expenses can include:

- the purchase price of rental property;
- legal fees and other costs connected with buying the property; and
- the cost of furniture and equipment you are renting with the property.

Current or capital expenses

Renovations and expenses that extend the useful life of your property or improve it beyond its original condition are usually capital expenses. An increase in a property's market value because of an expense is not a major factor in deciding whether the expense is capital or current. To decide whether an amount is a current expense or a capital expense, you should consider your answers to the questions provided in the chart on the following page.

Criteria	Capital expenses (see "Capital expenses – Special situations" on this page)	Current expenses
Does the expense provide a lasting benefit?	A capital expense generally gives a lasting benefit or advantage. For example, the cost of putting vinyl siding on the exterior walls of a wooden house is a capital expense.	A current expense is one that usually recurs after a short period. For example, the cost of painting the exterior of a wooden house is a current expense.
Does the expense maintain or improve the property?	The cost of a repair that improves a property beyond its original condition is probably a capital expense. If you replace wooden steps with concrete steps, the cost is a capital expense.	An expense that simply restores a property to its original condition is usually a current expense. For example, the cost of repairing wooden steps is a current expense.
Is the expense for a part of a property or for a separate asset?	The cost of replacing a separate asset within a property is a capital expense. For example, the cost of buying a refrigerator to use in your rental operation is a capital expense. This is the case because a refrigerator is a separate asset and is not a part of the building.	The cost of repairing a property by replacing one of its parts is usually a current expense. For instance, electrical wiring is part of a building. Therefore, an amount you spend to rewire is usually a current expense, as long as the rewiring does not improve the property beyond its original condition.
What is the value of the expense? (Use this test only if you cannot determine whether an expense is capital or current by considering the three previous tests.)	Compare the cost of the expense to the value of the property. Generally, if the cost is of considerable value in relation to the property, it is a capital expense.	This test is not a determining factor by itself. You might spend a large amount of money for maintenance and repairs to your property all at once. If this cost was for ordinary maintenance that was not done when it was necessary, it is a maintenance expense, and you deduct it as a current expense.
Is the expense for repairs to the used property that you acquired made to put it in a suitable condition for use?	The cost of repairing used property you acquired to put in a suitable condition for use in your business is considered a capital expense even though in other circumstances it would be treated as a current operating expense.	Where the repairs were for ordinary maintenance of a property you already had in your business, the expense is usually current.
Is the expense for repairs made to an asset in order to sell it?	The cost of repairs made in anticipation of selling a property, or as a condition of sale, is regarded as a capital expense.	Where the repairs would have been made anyway, but a sale was negotiated during the course of the repairs or after their completion, the expense is considered current.

You were asking?

Q. My brother and I own an old apartment building that we have been renting for several years. In the current tax year, we had the roof and outside walls repaired. The repairs to the roof involved waterproofing and re-shingling several patches that had developed leaks. The building is made of brick, and the outside walls were redone using the original bricks. Can we deduct these expenses in calculating our rental income for the year?

A. Yes. The repairs to the building simply restored it to its original condition. As a result, they are current expenses.

If you need more information on the difference between current expenses and capital expenses, see Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance*.

Capital expenses – Special situations

Modifications to rental properties to accommodate persons with disabilities

You may renovate your existing rental property to accommodate persons with disabilities. You can deduct outlays and expenses you have for eligible disability-related modifications in the year you paid them, instead of having to **add** them to the capital cost of your building.

Some eligible changes include:

- installing hand-activated electric door openers;
- installing interior and exterior ramps; and
- modifying a bathroom, elevator, or doorway so a person in a wheelchair can use it.

You can also deduct expenses you pay to install or acquire the following disability-related devices and equipment:

- elevator car-position indicators (such as braille panels and audio indicators);
- visual fire-alarm indicators;
- listening or telephone devices for people who have a hearing impairment; and
- disability-specific computer software and hardware attachments.

Renovating an older building

Renovations or repairs are usually considered to be a current expense. When you renovate or repair an older building that you bought to make it suitable to rent, the cost of the work is considered a capital expense.

Construction soft costs

You may have certain costs relating to the period you were constructing, renovating, or altering your rental building to make it more suitable to rent. These expenses are sometimes called **soft costs**. They include:

- interest;
- legal fees;
- accounting fees; and
- property taxes.

Soft costs for the period of construction, renovation, or alteration of a building are made up of the soft costs related to the building and ownership of the related land. The building's related land consists of the land:

- that is under the building; or
- that is just beside the land under the building; used or intended for use for a parking area, driveway, yard, garden, or any other similar use; and necessary for the use or intended use of the building.

Depending on your situation, soft costs may be deductible as a current expense or added to the cost of the building.

Soft costs related to the building may be deductible as a current expense if they relate to:

- only the construction, renovation, or alteration of the building; and
- the time period it took place in.

We consider the period of construction, renovation, or alteration to be completed on whichever date is earlier:

- the date the work is completed; or
- the date you rent 90% or more of the building.

When these conditions are met, the amount of soft costs related to the building that you can deduct is limited to the amount of rental income earned from the building.

Soft costs that do not meet the above conditions can be added to the capital cost of the building and **not** the land.

CCA, landscaping costs, and disability-related modifications to the buildings' costs are not subject to the soft-cost rules.

For more information on CCA, see Chapter 4.

For more information on landscaping costs, see "Landscaping costs" on page 13.

For more information on costs for disability-related modifications, see "Modifications to rental properties to accommodate persons with disabilities" on page 10.

Personal portion

If you rent part of the building where you live, you can claim the amount of your expenses that relate to the rented area of the building. You have to **divide** the expenses that relate to the whole property between your personal part and the rented area. You can split the expenses using square metres or the number of rooms you are renting in the building.

For example, if you rent 4 rooms of your 10-room house, you can deduct:

- 100% of the expenses that relate only to the rented rooms, such as repairs and maintenance of the rooms; **plus**
- 40% (4 out of 10 rooms) of the expenses that relate to the whole building, such as taxes and insurance.

If you rent rooms in your home to a lodger or roommate, you can claim all of the expenses for the part you are renting. You can also claim a portion of the expenses for the rooms in your home that you are not renting that both you and your lodger or roommate use. You can use factors such as availability for use or the number of persons sharing the room to calculate the allowable expenses. You can also calculate these amounts by estimating the percentage of time the lodger or roommate spends in these rooms (for example, the kitchen and living room).

Fill in Part 4 – Expenses on Form T776 as follows:

- enter the full amount of each expense under "Total expenses"
- enter the part of each expense that was for personal use under "Personal portion"
- **add** up the amounts in each column and enter the result for "Total Expenses" on amount A, and enter the "Personal portion" on line 9949
- **subtract** the personal portion total from the total expenses to get your total deductible expense. Enter this result on amount 7

If you are a co-owner or partner in a partnership, enter the personal portion of the expenses for all co-owners or partners at line 9949.

You **cannot** claim the expenses for renting part of your property if you have no reasonable expectation of making a profit.

For more information on renting part of your personal residence, see "Changing part of your principal residence to a rental property" on page 29.

Example
Rick rents out 3 rooms of his 12-room house. He is not sure how to split the expenses when he reports his rental income. Rick's expenses were property taxes, electricity, insurance, and the cost of advertising for tenants in the local newspaper.

Rick can claim the part of his expenses that relate to the area of the property he rented in the current tax year. Since Rick rented 25% of his residence (3 out of 12 rooms), he can deduct 25% of his property taxes, electricity, and insurance costs from his rental income. He can deduct the full amount of the advertising expense, since this expense relates only to the rented area.

When he completes Form T776, Rick enters the full amount of each expense in the "Total expense" column. Then, in the "Personal portion" column, he shows the part of each expense that relates to his personal use. In this case, he enters 75% of the property taxes, electricity, and insurance costs for the property. He will not enter anything for advertising in the "Personal portion" column.

Rick can also claim CCA on the rented area of the property if it does not create or increase a rental loss and he is not designating the building as his principal residence.

Expenses you can deduct

Prepaid expenses

Prepaid expenses are expenses you pay ahead of time. Claim any expense you prepay in the year or years in which you get the related benefit.

Example
Maria paid $2,100 for insurance on her rental property. The insurance was for the current tax year and the two following years. Although she paid the insurance for three years, she can deduct only the part that applies to the current tax year from her gross rental income.

Maria can deduct $700 in the current tax year and $700 in each of the following two years.

For more information, see archived Interpretation Bulletin IT-417, *Prepaid Expenses and Deferred Charges*.

Line 8521 – Advertising

You can usually deduct advertising expenses to publicize that your rental property is available for rent.

Line 8690 – Insurance

You can deduct the premium for insurance coverage on your rental property for the current year. If your policy gives coverage for more than one year, you can deduct only the premiums that relate to the current year. Deduct the remaining premiums in the year(s) to which they relate.

Line 8710 – Interest and bank charges

You can deduct the interest charge on money you borrow to buy or improve your rental property. If you have interest expenses that relate to the construction or renovation period, see Construction soft costs on page 11.

You can also deduct interest charges you paid to tenants on rental deposits. If you are claiming interest as a rental expense on Form T776, do not include it as a carrying charge on Schedule 4, *Statement of Investment Income*.

Do not deduct in full for the year any lump-sum amount paid for interest or a fee paid to reduce the interest rate on a mortgage. You prorate these amounts for the rest of the original term of the mortgage or loan. You also prorate a penalty or bonus paid to a financial institution to pay off your mortgage loan before it is due.

For example, if the term of your mortgage is five years, and in the third year you pay a fee to reduce your interest rate, you must treat this fee as a prepaid expense and deduct it over the remaining term of the mortgage.

You can deduct certain fees when you get a mortgage or loan to buy or improve your rental property. If the loans relate to the construction or renovation period, first read about soft costs on page 11.

Loan fees include:

- mortgage applications, appraisals, processing, and insurance fees;
- mortgage guarantee fees;
- mortgage brokerage and finder's fees; and
- legal fees related to mortgage financing.

You deduct these fees over a period of five years. Deduct 20% (100% divided by five years = 20%) in the current tax year and 20% in each of the following four years. If you repay the mortgage or loan before the end of the five-year period, you can deduct the remaining financing fees at that time. The number of years for which you can deduct these fees is not related to the term of your mortgage.

If you have standby charges, guarantee fees, service fees, or other similar fees, you may be able to deduct them in full if they relate only to that tax year.

You can choose to treat finance fees you paid and the interest on money you borrowed to acquire depreciable property as capital expenses.

If you refinance your rental property to get money for a business or other investments, you may be able to claim the interest expenses on Schedule 4. See line 221 in the *General Income Tax and Benefit Guide*, or the "Expenses" chapter in Guide T4002, *Self-employed Business, Professional, Commission, Farming, and Fishing Income*. If the funds are for personal use, you cannot deduct the interest expenses.

You were asking?

Q. I own and rent a semi-detached house. This year, I refinanced the property to increase the mortgage because I needed money for a down payment on my personal residence. Can I deduct the additional interest on the mortgage against my rental income?

A. No. You are making personal use of the funds you got from refinancing your rental property. As a result, you **cannot** deduct the additional interest when you calculate your net income or loss from your rental property.

Line 8810 – Office expenses

You can deduct the cost of office expenses. These include small items such as pens, pencils, paper clips, stationery, and stamps.

Line 8860 – Professional fees (includes legal and accounting fees)

You can deduct fees for legal services to prepare leases or collect overdue rents. If you incur legal fees to buy your rental property, you cannot deduct them from your gross rental income. Instead, **divide** the fees between land and building and add them to their respective cost. For example, you buy a property worth $200,000 ($50,000 for the land and $150,000 for the building) and incur legal fees of $10,000. Split the $10,000 proportionately between the land and building. In this case, $2,500 is added to the cost of the land (for a total of $52,500) and $7,500 is added to the cost of the building (for a total of $157,500). For more information, see "Land" on page 20.

Note
The legal fees you paid when selling your rental property are deducted from your proceeds of disposition when calculating your capital gain or loss.
The deduction for legal fees also applies when calculating a recapture of CCA or a terminal loss.

You can also deduct expenses you had for bookkeeping services, audits of your records, and preparing financial statements. You may be able to deduct fees and expenses for advice and help to prepare your income tax and benefit return and any related information returns.

Line 8871 – Management and administration fees

You can deduct the amounts paid to a person or a company to manage your property. You can also deduct amounts paid or payable to agents for collecting rents or finding new tenants.

If you have commissions when selling your rental property, include them as "Outlays and Expenses" on Schedule 3, *Capital Gains (or Losses)*, when you report the disposition of your property.

Line 8960 – Repairs and maintenance

If you pay for repairs to your property to earn rental income, you can deduct the cost of labour and materials. You **cannot** deduct the value of your own labour.

Line 9060 – Salaries, wages, and benefits

You can deduct amounts paid or payable to superintendents, maintenance personnel, and others you employ to take care of your rental property. You **cannot** deduct the value of your own services.

As an employer, you can deduct your portion of Canada Pension Plan or Quebec Pension Plan contributions, Employment Insurance premiums, and workers' compensation board amounts.

You can also deduct any insurance premiums you pay for an employee for a sickness, an accident, a disability, or an income insurance plan.

For more information on wages, see Guide T4001, *Employer's Guide – Payroll Deductions and Remittances*.

Line 9180 – Property taxes

You can deduct property taxes that relate to your rental property for the period it was available for rent. For example, you can deduct property taxes for the land and building where your rental property is situated. For more information, see "Vacant land" on page 14 and "Construction soft costs" on page 11.

Line 9200 – Travel

You might travel to collect rents, supervise repairs, and manage your properties. To claim the expenses you incur, you need to meet the same requirements discussed at "Line 9281 – Motor vehicle expenses" on this page.

Travelling expenses include the cost of getting to your rental property. Travelling expenses do not include board and lodging, which we consider to be personal expenses.

Line 9220 – Utilities

You can deduct expenses for utilities, such as gas, oil, electricity, water, and cable, if your rental arrangement specifies that you pay for the utilities of your rental space or units.

Line 9281 – Motor vehicle expenses

You can deduct motor vehicle expenses in the following circumstances:

- If you own one rental property:

  You can deduct reasonable motor vehicle expenses if you meet **all** of the following conditions:

  – you receive income from only one rental property that is in the general area where you live;

  – you personally do part, or all, of the necessary repairs and maintenance on the property; and

  – you have motor vehicle expenses to transport tools and materials to the rental property.

  You **cannot** deduct motor vehicle expenses you incur to collect rents. These are personal expenses.

- If you own two or more rental properties:

  In addition to the expenses listed above, you can deduct reasonable motor vehicle expenses you incur to do any of the following:

  – collect rents

  – supervise repairs

  – manage the properties

This applies whether your rental properties are located in or outside the general area where you live. Your rental properties have to be located in at least two different sites, away from your principal residence. The motor vehicle expenses that we consider to be reasonable depend on the circumstances of your situation.

For the definition of motor vehicle, see "Definitions" on page 4.

For information on how to calculate the motor vehicle expenses, see Guide T4002 *Self-employed Business, Professional, Commission, Farming, and Fishing Income*.

Line 9270 – Other expenses

Include the total amount of other expenses you incur to earn rental income and that you have not included on another line of Form T776. Some of these expenses are explained in the following sections.

Landscaping costs

You can deduct the cost of landscaping the grounds around your rental property only in the year you paid the cost, even if you use the accrual method for calculating your rental income.

Lease cancellation payments
You can deduct amounts paid or payable to tenants to cancel their leases. The deductible amount is calculated as follows:

If you made the cancellation payment in the year:

$$\text{Cancellation payment} \times \frac{\text{Number of days to the end of the year when payment is made}}{\text{Number of days left on the lease}}$$

If you made the cancellation payment in a previous year:

$$\text{Cancellation payment} \times \frac{\text{Number of days in the year left on the lease}}{\text{Number of days left on the lease}}$$

For this calculation, the life of the lease (including all renewal periods) **cannot** be longer than 40 years.

Example
Samir is a landlord. He paid his tenant $1,000 to cancel a lease on August 18 of the current tax year. The lease was due to expire on December 31 of the next year. When he made the payment, there were 135 days left in the current year and 500 days left on the lease.

For the current tax year, Samir deducts $270, calculated as follows:

$$\$\,1{,}000 \times \frac{135}{500} = \$\,270$$

For the next year, Samir deducts $730 calculated as follows:

$$\$\,1{,}000 \times \frac{365}{500} = \$\,730$$

If you dispose of the property, the tax treatment will vary depending on your situation. For more information, see archived Interpretation Bulletin IT-359, *Premiums and Other Amounts With Respect to Leases*.

Condominium fees
If you earn rental income from a condominium unit, you can deduct the expenses that you would usually deduct from it. You can also deduct condominium fees that represent your share of the upkeep, repairs, maintenance, and other current expenses of the common property. For more information, see archived Interpretation Bulletin IT-304, *Condominiums.*

Vacant land
You might earn rental income from vacant land. You can deduct your operating expenses from this income. There are limits on how much you can deduct for:

- interest on money you borrowed to acquire the land, or on an amount payable for the land; and
- property taxes on the land assessed by a province or territory and a Canadian municipality, including assessments for school taxes and local improvements.

The amount you can deduct for these two expenses is limited to the amount of rental income left after you have deducted all other expenses. You **cannot** create or increase a rental loss, or reduce other sources of income, by claiming a deduction for interest or property taxes. They can be added to the cost of the land. This will decrease your capital gain or increase your capital loss when you dispose of the land.

You **cannot** deduct your mortgage interest and property taxes for vacant land if you are not earning any income from that land. You **cannot** add these expenses to the adjusted cost base of your land. In addition, you **cannot** deduct income taxes, profit taxes, or land transfer taxes you have for the vacant land.

For more information on vacant land, see archived Interpretation Bulletin IT-153, *Land Developers – Subdivision and Development Costs and Carrying Charges on Land*, and archived Interpretation Bulletin IT-456, *Capital Property – Some Adjustments to Cost Base*, and its Special Release.

You were asking?

Q. In 1995, I bought vacant land as an investment. In the current tax year, I rented this land to a farmer for pasture. Can I deduct my mortgage interest and property taxes from my rental income?

A. Yes. After deducting all your other allowable expenses, you can deduct the amount of your mortgage interest and property taxes for the year that you need to reduce your remaining rental income to zero. If you do not need to use the full amount of your taxes and interest, you can **add** the rest to the adjusted cost base of the land.

Expenses you cannot deduct

Land transfer taxes

You **cannot** deduct land transfer taxes you paid when you bought your property. **Add** these amounts to the cost of the property.

Mortgage principal

You **cannot** deduct the repayments of principal on your mortgage or loan on your rental property. For more information about the interest part of your mortgage, see "Line 8710 – Interest and bank charges" on page 12.

Penalties

You **cannot** deduct any penalties shown on your notice of assessment or notice of reassessment.

Value of your own labour

You cannot deduct the value of your own services or labour.

Line 9949 – Total personal portion of expenses

Enter the total amount from the column called "Personal portion." For more information, see "Personal portion" on page 11.

Deductible expenses

Your deductible expenses are your total expenses **minus** your total personal expenses.

Line 9369 – Net income (loss) before adjustments

Enter the gross income **minus** the deductible expenses (amount 6 **minus** amount 7). This amount is the net rental income of all co-owners or partners before any claim for CCA.

Co-owners – Your share of line 9369

If you are a co-owner, enter your share of the amount from line 9369 on amount 9. This amount is based on your share of ownership of the rental property.

If you are a co-owner or partner, also fill in Part 2 – Details of other co-owners and partners.

Line 9945 – Other expenses of the co-owner

Enter the amount of deductible expenses you have as a co-owner that you did not deduct elsewhere.

Line 9947 – Recaptured CCA

If you had a recapture of CCA, enter that amount at this line. If you are a co-owner, enter your share of the amount. We explain recapture of CCA on page 21.

Line 9948 – Terminal loss

Enter any terminal loss amount you had on the sale of rental property at this line. If you are a co-owner, enter your share of the amount. We explain terminal loss on page 21.

Line 9936 – Capital cost allowance

Enter the amount of your total CCA claim for the year from amount B in Area A. For information on how to calculate CCA, see Chapter 4.

If you are a partner in a partnership that does not need to issue you a T5013 slip, enter the total CCA allocated on the financial statements the partnership gave you.

Do not use the amount at line 9936 if you are a member of a partnership that has to file Form T5013 Summary, *Information Return of Partnership Income*. Your CCA amount is already included in box 110 of your T5013 slip.

Net income (loss)

Enter your net income (loss) at amount 17, which is amount 15 **minus** the amount at line 9936.

Amount 18 – Partnerships

If you are a member of a partnership, enter your share of amount 17 or the amount from box 107 or 110 from your T5013 slip.

Line 9974 – GST/HST rebate for partners received in the year

If you received a GST/HST rebate for partners, report the amount of the rebate that relates to the eligible expenses other than the CCA at line 9974.

Line 9943 – Other expenses of the partner

Enter the amount of deductible expenses you have as a partner that you did not deduct elsewhere on Form T776.

Line 9946 – Your net income (loss)

This is the amount of your net income or loss for the tax year. Enter the amount from line 9946 on line 126 of your income tax and benefit return.

Rental losses

You have a rental loss if your rental expenses are more than your gross rental income. If you incur the expenses to earn income, you can deduct your rental loss against your other sources of income.

Renting below fair market value

You can deduct your expenses only if you incur them to earn an income. In certain cases, you may ask your son or daughter, or anyone else living with you, to pay a small amount for the upkeep of your house or to cover the cost of groceries. You **do not** report this amount in your income, and you **cannot** claim rental expenses. This is a cost-sharing arrangement, so you **cannot** claim a rental loss.

If you lose money because you rent a property to a person you know for less money than you would to a person you do not know, you **cannot** claim a rental loss. When your rental expenses are consistently more than your rental income, you may not be allowed to claim a rental loss because your rental operation is not considered to be a source of income. You can claim a rental loss if you are renting the property to a relative for the same rate as you would charge other tenants and you expect to make a profit.

Chapter 4 – Capital cost allowance

What is capital cost allowance?

In the year you buy a depreciable property, you cannot deduct its full cost. Depreciable property, such as a building, furniture, or equipment, wears out or becomes dated. You can deduct a percentage of the property's capital cost over a period of several years. Depreciation is the part of the cost you can deduct that allocates part of the cost of the property to the current fiscal year. The term capital cost allowance is used for income tax purposes.

You can usually claim CCA on a property when it becomes available for use (see "Definitions" on page 4).

How much CCA can you claim?

The CCA you can claim depends on the type of rental property you own and the date you acquired it. Group the depreciable properties you own in the prescribed classes that are identified in the *Income Tax Act*. The Act outlines the rate of CCA for each class. We explain the most common classes of depreciable rental property and the rates that apply to each class under "Classes of depreciable property" in this guide.

For the most part, use the declining balance method to calculate your CCA, as it is the most common one. This means that you apply the CCA rate to the **capital cost** of the depreciable property. Over the life of the property, the rate is applied against the remaining balance. The remaining balance declines each year that you claim CCA.

Example
Last year, Sue bought a rental building for $60,000. On her income tax and benefit return for last year, she claimed CCA of $1,200 on the building. This year, Sue bases her CCA claim on her remaining balance of $58,800 ($60,000 – $1,200).

You do not have to claim the maximum amount of CCA in any given year. You can claim any amount you like, from zero to the maximum allowed for the year. For example, if you do not have to pay income tax for the year, you may not want to claim CCA. Claiming CCA reduces the balance of the class by the amount of CCA claimed. As a result, the amount of CCA available for you to claim in future years will be reduced.

Note
If you are a partner in a partnership, the amount of CCA you can claim has already been determined by the partnership. If you receive a T5013 slip, your CCA amount is already included in box 110. If you are a partner in a partnership that does not need to issue this slip, the total partnership CCA will be shown on the financial statements you receive.

Limits on CCA

In the year you **acquire** rental property, you can usually claim CCA only on one-half of your net additions to a class. This is the half-year rule (also known as the 50% rule) which we explain under "Column 6 – Adjustment for current-year additions" on page 21. The **available-for-use** rules may also affect the amount of CCA you can claim (see "Definitions" on page 4).

In the year you **dispose** of rental property, you may have to **add** an amount to your income as a recapture of CCA or deduct an amount from your income as a terminal loss. We explain recapture and terminal loss under "Column 5 – UCC after additions and dispositions" on page 21.

If you own more than one rental property, you have to calculate your overall net income or loss for the year from all your rental properties before you can claim CCA. If you are a partner, include the net rental income or loss from your T5013 slip in the calculation. Combine the rental incomes and losses from all your properties, even if they belong to different classes. This also applies to furniture, fixtures, and appliances that you use in your rental building. You can claim CCA for these properties, the building, or both.

You **cannot** use CCA to create or increase a rental loss.

Example
Salvador owns three rental properties. Two of these properties are Class 1 buildings and one is a Class 3 building. All the buildings contain Class 8 appliances. Salvador's net rental income from these properties is as follows:

Building		Net rental income (or loss)
1 (Class 1)		$ 1,500
2 (Class 1)	+	$ 2,000
3 (Class 3)	+	($ 4,000)
Total	=	($ 500)

Salvador has an overall net loss of $500. Since he is not allowed to increase his rental loss by claiming CCA, he cannot claim any CCA on his rental buildings or appliances.

For more information about loss restrictions on rental and leasing properties, see archived Interpretation Bulletin IT-195, *Rental Property – Capital Cost Allowance Restrictions*, and Interpretation Bulletin IT-443, *Leasing Property – Capital Cost Allowance Restrictions*, and its Special Release.

Classes of depreciable property

This section explains the most common classes of depreciable rental property and the rates that apply to each class.

If you need more information, see archived Interpretation Bulletin IT-79, *Capital Cost Allowance – Buildings or Other Structures.*

A **condominium** unit in a building belongs to the same class as the building. For example, if you own a condominium in a building that is a Class 3 property, the unit in the building is a Class 3 **rental property**. If the whole building qualifies as a Class 31 or Class 32 rental property (a MURB), then each unit within the building is a Class 31 or 32 rental property.

For more information on CCA and condominiums, see archived Interpretation Bulletin IT-304, *Condominiums*.

Leasehold interest in real property that is a rental property

A leasehold interest is the interest of a tenant in any leased tangible property.

If you are a taxpayer or partnership and own a leasehold interest in a real property that is a rental property, include the leasehold interest in Class 1, 3, 6, or 13 (or Class 3, 6, or 13 for tax years before 1988).

It may be necessary in some situations to **divide** the capital cost of a leasehold interest into more than one prescribed class. For example, where you expend an amount to obtain a leasehold interest in land and construct a building that falls into Class 3, the capital cost of acquiring the lease will be included in Class 13 and the capital cost of the building will be included in Class 3.

Class 1 (4%)

A **rental building** may belong to classes 1, 3, 6, 31, or 32, depending on what the building is made of and the date you acquire it. You also include in these classes the parts that make up the building, such as:

- electric wiring;
- lighting fixtures;
- plumbing;
- sprinkler systems;
- heating equipment;
- air-conditioning equipment (other than window units);
- elevators; and
- escalators.

Note
Most land is not depreciable property. When you acquire property, only include the cost that relates to the building in Area A and Area C. Enter at line 9923 in Area F the cost of all land additions in the year. For more information, see "Area F – Land additions and dispositions in the year" on page 21 and "Column 3 – Cost of additions in the year" on page 20.

Class 1 includes most buildings acquired after 1987, unless they specifically belong to another class. Class 1 also includes the cost of certain additions or alterations you made after 1987 to a Class 1 building or certain buildings of another class.

The CCA rate for eligible **non-residential buildings** acquired by a taxpayer after March 18, 2007, and used in Canada to manufacture or process goods for sale or lease includes an additional allowance of 6% for a total rate of 10%. The CCA rate for other eligible **non-residential buildings** includes an additional allowance of 2% for a total rate of 6%.

To be eligible for one of the additional allowances, you must elect to put a building in a separate class. To make the election, attach a letter to your return for the tax year in which you acquired the building. If you do not file an election to put it in a separate class, the 4% rate will apply.

The additional allowance applies to buildings acquired after March 18, 2007, (including a new building, if any part of it is acquired after March 18, 2007, when the building was under construction on March 19, 2007) that have not been used or acquired for use before March 19, 2007.

To be eligible for the additional 6% allowance you must use at least 90% of the building (measured by square footage) in Canada for the designated purpose at the end of the tax year. Manufacturing and processing buildings that do not meet the 90% used test are eligible for the additional 2% allowance. Eligibility applies if at least 90% of the building is used in Canada for non-residential purposes at the end of the tax year.

Class 3 (5%)

Most buildings acquired before 1988 are included in Class 3 or Class 6.

If you acquired a building before 1990 that does not fall in Class 6, you can include it in Class 3 with a CCA rate of 5% if **one** of the following situations applies:

- you acquired the building under the terms of a written agreement entered into before June 18, 1987; or
- the building was under construction by you or for you on June 18, 1987.

Include in Class 3 the cost of any additions or alterations made after 1987 to a Class 3 building that does not exceed the **lesser** of the following two amounts:

- $500,000; and
- 25% of the building's capital cost (including the cost of additions or alterations to the building included in classes 3, 6, or 20 made before 1988).

Any amount that exceeds the lesser amount above should be included in Class 1.

Class 6 (10%)

Buildings made of frame, log, stucco on frame, galvanized iron, or corrugated metal should be included in Class 6 with a CCA rate of 10%. In addition, **one** of the following conditions has to apply:

- you acquired the building before 1979;
- the building has no footings or other base supports below ground level; or
- the building is used to gain or produce income from farming or fishing. Farming and fishing income is not rental income.

If any of the above conditions apply, **add** to Class 6 the full cost of all the building's additions and alterations.

If none of the above conditions applies, include the building in Class 6 if **one** of the following situations applies:

- you entered into a written agreement before 1979 to acquire the building, and the footings or other base supports of the building were started before 1979; or
- you started construction of the building footings and other base supports before 1979 (or it was started under the terms of a written agreement you entered into before 1979).

Include in Class 6 certain greenhouses and fences.

For additions or alterations to such buildings:

- **Add** to Class 6:
  - the first $100,000 of additions or alterations made after 1978
- **Add** to Class 3 the cost of additions or alterations that are made after:
  - 1978 and before 1988, and over $100,000; and
  - 1987, and over $100,000 but no more than $500,000 or 25% of the building's capital cost, whichever is less.
- **Add** to Class 1 any additions or alterations over these limits.

For more information, see Interpretation Bulletin IT-79, *Capital Cost Allowance – Buildings or Other Structures*.

Class 8 (20%)

Some properties not included in another class will be in Class 8 with a CCA rate of 20%. Examples include furniture, household appliances, a tool costing $500 or more, some fixtures, machinery, outdoor advertising signs, refrigeration equipment, and other equipment you use in your rental operation.

Photocopiers and electronic communications equipment, such as fax machines and electronic telephone equipment are also included in Class 8.

> **Note**
> If this equipment costs $1,000 or more, you can elect to have it included in a separate class. The CCA rate will not change but a separate CCA deduction can now be calculated for a five-year period. When all the property in the class is disposed of, the undepreciated capital cost (UCC) is fully deductible as a terminal loss. Any UCC balance left in the separate class at the end of the fifth year has to be transferred back to the general class in which it would belong. To make an election, attach a letter to your income tax and benefit return for the tax year in which you acquired the property. If you are filing electronically, mail your letter to your tax centre. You can find your tax centre's address at **canada.ca/cra-offices**.

Class 10 (30%)

Class 10 with a CCA rate of 30% includes general-purpose electronic data processing equipment (commonly called computer hardware) and systems software for that equipment, including ancillary data processing equipment, if you acquired them either:

- before March 23, 2004
- after March 22, 2004, and before 2005, and you made an election

Class 10 also includes motor vehicles, as well as some passenger vehicles. For the definition of motor vehicle and passenger vehicle, see Guide T4002, *Self-employed Business, Professional, Commission, Farming, and Fishing Income*.

Include passenger vehicles in Class 10 unless they meet the Class 10.1 conditions.

Class 10.1 (30%)

Your passenger vehicle can belong to either Class 10 or Class 10.1.

To determine the class your passenger vehicle belongs to, you have to use the cost of the vehicle before you **add** the GST/HST or the provincial sales tax (PST).

Include your passenger vehicle in Class 10.1 if you bought it in your 2017 fiscal period and it cost more than $30,000. List each Class 10.1 vehicle separately.

We consider the capital cost of a Class 10.1 vehicle to be $30,000, plus the related GST/HST, or PST. The $30,000 amount is the capital cost limit for a passenger vehicle.

> **Note**
> Use the GST rate of 5% and the appropriate PST rate for your province or territory. If your province is a participating province, use the appropriate HST rate. For more information on the GST and the HST, see Guide RC4022, *General Information for GST/HST Registrants.*

For more information on Class 10 and Class 10.1, as well as the definitions of **motor vehicle** and **passenger vehicle**, see Guide T4002, *Self-employed Business, Professional, Commission, Farming, and Fishing Income*.

The following chart will help you to determine if you have a motor vehicle or a passenger vehicle. The chart does not cover every situation, but it gives some of the main definitions for vehicles bought or leased and used to earn income.

Vehicle definitions			
Type of vehicle	**Seating (includes driver)**	**Business use in year bought or leased**	**Vehicle definition**
Coupe, sedan, station wagon, sports car, or luxury car	1 to 9	1% to 100%	passenger
Pick-up truck used to transport goods or equipment	1 to 3	more than 50%	motor
Pick-up truck (other than above)	1 to 3	1% to 100%	passenger
Pick-up truck with extended cab used to transport goods, equipment, or passengers	4 to 9	90% or more	motor
Pick-up truck with extended cab (other than above)	4 to 9	1% to 100%	passenger
Sport utility vehicle used to transport goods, equipment, or passengers	4 to 9	90% or more	motor
Sport utility vehicle (other than above)	4 to 9	1% to 100%	passenger
Van or minivan used to transport goods or equipment	1 to 3	more than 50%	motor
Van or minivan (other than above)	1 to 3	1% to 100%	passenger
Van or minivan used to transport goods, equipment, or passengers	4 to 9	90% or more	motor
Van or minivan (other than above)	4 to 9	1% to 100%	passenger

Class 13

The capital cost of a leasehold interest of Class 13 property includes an amount that a tenant spends:

- on improvements or alterations to a leased property that is capital in nature, other than improvements or alterations that are included as part of the building or structure; and
- to obtain or extend a lease or sublease of the property and pays it to the landlord.

The maximum CCA rate depends on the type of leasehold interest and the terms of the lease.

Certain amounts are **not** included in the capital cost of a leasehold interest. These include:

- an amount paid by a tenant to cancel a lease; and
- an amount paid by a tenant instead of rent or as a prepayment of rent.

For more information on leasehold interests, see Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance*.

Class 31 (5%) and Class 32 (10%)

Class 31 and Class 32 include multiple-unit residential buildings (MURB) certified by the Canada Mortgage and Housing Corporation (CMHC) to which **all** of the following conditions apply:

- they are located in Canada;
- they contain two or more units; and
- they provide their occupants with a relatively permanent residence.

If the entire MURB qualifies under Class 31 or 32-rental property, then each unit within the building falls under the same class.

To be included in Class 31 with a CCA rate of 5%, the building must have been acquired after 1979 and before June 18, 1987.

To be included in Class 32 with a CCA rate of 10%, the building must have been acquired before 1980.

> **Note**
> For 1994 and following years, you can no longer create or increase a rental loss by claiming CCA on a Class 31 or Class 32 property.

When a MURB no longer qualifies as a Class 31 or Class 32 rental property, you have to transfer it to the correct class.

For more information about the 1994 change in the CCA limit on MURBs, see archived Interpretation Bulletin IT-195, *Rental Property – Capital Cost Allowance Restrictions*.

Class 50 (55%)

Include general-purpose electronic data processing equipment (commonly called computer hardware) and systems software for that equipment, including ancillary data processing equipment acquired after March 18, 2007, in Class 50 with a CCA rate of 55%.

Do not include property that falls under Class 52 or that is mainly used as:

a) electronic process control or monitor equipment

b) electronic communications control equipment

c) systems software for equipment referred to in a) or b)

d) data handling equipment (other than data handling equipment that is ancillary to general-purpose electronic data processing equipment)

How to calculate your CCA claim

To calculate your 2017 deduction for CCA, and any recaptured CCA and terminal losses, use Area A of your form. Include only the rental property part.

You may have acquired or disposed of buildings or equipment during your fiscal period. If so, fill in the applicable Area B, C, D, or E, whichever applies, before completing Area A.

> **Note**
> Even if you are not claiming a deduction for CCA for 2017, fill in the appropriate areas of the form to show any additions or disposals during the year. For more information, see the following section.

Area A – Calculation of CCA claim

Column 1 – Class number

If this is the first year you are claiming CCA, see "Classes of depreciable property" on page 16 to determine the classes for each property.

Separate classes

Generally, if you own several properties in the same CCA class, combine the capital cost of all these properties into one class. Then enter the total of the combined properties that are represented under one class in Area A's calculation table. If you acquired a rental property after 1971 and it had a capital cost of $50,000 or more, you have to put it in a separate class. Calculate your CCA separately for each rental property that is in a separate class. Do this by listing the rental property on a separate line in Area A's calculation table. For CCA purposes, the capital cost is the part of the price that relates to the building only.

When you dispose of a rental property that you have set up in a separate class in Area A's calculation table, you base any CCA recapture or terminal loss only on the disposition of that rental property. When calculating these amounts, do not consider any other rental property you own that has the same class number as the rental property you disposed of. For more information on recapture of CCA and terminal losses, see "Column 5 – UCC after additions and dispositions" on page 21.

For more information about CCA for rental properties with a capital cost of over $50,000, see archived Interpretation Bulletin IT-274R, *Rental Properties – Capital Cost of $50,000 or More.*

Column 2 – Undepreciated capital cost (UCC) at the start of the year

Enter in this column the remaining UCC of each class at the end of last year. You can find these amounts in last year's completed Form T776 calculation table in column 10.

Skip this column if this is the first year you have had property for which you can claim CCA.

Column 3 – Cost of additions in the year

If you acquire or make improvements to depreciable property in the year, we generally consider them to be additions to the class in which the rental property belongs. You should:

- fill in areas B and C, if applicable
- for each class, enter in column 3 of Area A's calculation table the amounts from column 5 for each class in areas B and C

For exceptions to this rule, see "Class 3 (5%)" and "Class 6 (10%)" on page 17.

Do not include the value of your own labour in the cost of a rental property you build or improve. Include the cost of surveying or valuing a rental property you acquire. A rental property usually has to be **available for use** (see "Definitions" on page 4) before you can claim CCA.

To find out if any special considerations apply in your case, see "Special situations" on page 22.

> **Note**
> When completing parts B and C, enter the area of the property that you **personally** use (separate from the area you rent), in the column called "Personal portion." For example, if you rent 25% of your personal residence, your personal use portion is the other 75%.

Area B – Equipment additions in the year

List all equipment or other property you acquired or improved in the current tax year. Group them into the applicable classes, and put each class on a separate line. Equipment includes appliances (such as a washer and dryer), maintenance equipment (such as a lawn mower or a snow blower), and other property (such as furniture and some fixtures) you acquire to use in your rental operation. Enter at line 9925 the total rental portion of the cost of the equipment or other property. See also "Grants, subsidies, and other incentives or inducements" on page 23.

Area C – Building additions in the year

List all buildings and leasehold interests you acquired or improved in the current tax year. Group them into the applicable classes, and put each class on a separate line. Enter at line 9927 the total rental portion of the cost of the buildings and leasehold interests. The cost includes the purchase price of the building or leasehold interest, **and** any related expenses that you **should add** to the capital cost of the building, such as legal fees, land transfer taxes, and mortgage fees. See also "Grants, subsidies, and other incentives or inducements" on page 23.

Land

Generally, land is not a depreciable property. Therefore, you cannot claim CCA on its cost. If you acquire a rental property that includes both land and a building, enter only the cost of the building in column 3 of Area C. To calculate the building's capital cost, you have to split any fees that relate to the buying of the rental property between the land and the building. Related fees can include legal and accounting fees.

Calculate the related fees that you can include in the capital cost of the building as follows:

$$\frac{\text{Building value}}{\text{Total purchase price}} \times \text{Legal, accounting, or other fees} = \text{The part of the fees you can include in the building's cost}$$

Do not split a fee if it relates specifically to the land or the building. Instead, **add** the amount of the fee to either the land or the building depending on which it relates.

Area F – Land additions and dispositions in the year

Enter the total cost of acquiring land in the current tax year. The cost includes the purchase price of the land **and** any related expenses you should **add** to the capital cost of the land, such as legal fees, land transfer taxes, and mortgage fees. Enter at line 9923 the total cost of all land additions in the year. You cannot claim CCA on land. **Do not** enter this amount in column 3 of area A calculation table.

Column 4 – Proceeds of dispositions in the year

If you disposed of depreciable property in the current tax year, you **should**:

- complete, for each class, areas D and E, if applicable; and
- enter in column 4 of the calculation table in area A the amounts for each class from column 5 of areas D and E.

When completing the tables in areas D and E, enter in column 3 whichever amount is **less**:

- your proceeds of disposition **minus** any related expenses; or
- the capital cost of your rental property.

Your **proceeds of disposition** (see "Definitions" on page 4) could include compensation you receive for rental property that has been destroyed, expropriated, or stolen. Special rules may apply if you dispose of a building for less than both its UCC and your capital cost. If this is the case, see "Disposing of a building" on page 24.

If you sell a rental property for **more** than its cost, you may have a capital gain. You may be able to postpone or defer the capital gain or recapture of CCA in your income. For more information, see "Selling your rental property" on page 23 and "Replacement property" on page 25.

If you need more information about CCA, see Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance* and archived Interpretation Bulletin IT-464, *Capital Cost Allowance – Leasehold Interests*.

Area D – Equipment dispositions in the year

List all equipment and other property you disposed of in the current tax year. Group the equipment and other property into the applicable classes, and put each class on a separate line.

Enter at line 9926 the total rental amount from the proceeds of disposition of the equipment and other property. You will find information about proceeds of disposition in the last section.

Area E – Building dispositions in the year

List all buildings and leasehold interests you disposed of in the current tax year. Group the buildings and leasehold interests into the applicable classes, and put each class on a separate line. Enter at line 9928 the total amount for the rental portion from the proceeds of disposition of the buildings and leasehold interests.

> **Note**
> When completing areas D and E, enter the area of the property that you **personally** use (separate from the area you rent) in column 4 "Personal portion." For example, if you rent 25% of your personal residence, your personal use portion is the remaining 75%.

Area F – Land additions and dispositions in the year

Enter at line 9924 the total of all amounts you have received or will receive for disposing of land in the year.

Column 5 – UCC after additions and dispositions

The undepreciated capital cost (UCC) amount for column 5 is the initial UCC amount at the start of the year plus the cost of additions minus the proceeds of dispositions.

You cannot claim CCA when the amount in column 5 is:

- negative (see "Recapture of CCA" on this page)
- positive and you do not have any property left in that class at the end of your 2017 fiscal period (see "Terminal loss" on this page)

In either case, enter "0" in column 10.

Recapture of CCA

If the amount in column 5 is negative, you have a recapture of CCA. Enter your recapture amount on line 9947-Recaptured Capital cost allowance in Part 4 – Expenses. A recapture of CCA can occur, for example, when the proceeds from the sale of depreciable rental property are more than the total of:

- the UCC of the class at the start of the year; and
- the capital cost of any additions during the year.

Terminal loss

If the amount in column 5 is positive and you no longer own any property in that class, you have a terminal loss. You have a terminal loss when you no longer own property in the class at the end of a year, but you still have an amount that you have not deducted as CCA. In the year you dispose of your rental property, you can subtract this terminal loss from your rental income. If the loss is more than your rental income, you can create a rental loss. Enter your terminal loss at line 9948, "Terminal loss."

For more information on terminal losses and recapture of CCA, see Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance*.

Column 6 – Adjustment for current-year additions

In the year you acquire or make additions to a rental property you can usually claim CCA on **half** of your net additions. This limit is the **half-year rule**.

Calculate your CCA claim on the net adjusted amount. Do not reduce the cost of the additions in column 3 or the CCA rate in column 8. For example, if you acquired a rental property for $30,000, you would base your CCA claim on $15,000 (half of $30,000) in the year you acquired the property.

If you acquired and disposed of depreciable rental property of the same class in the current tax year, calculate the amount for adjustments for current-year additions as follows:

- Select whichever amount is **less**:
  - the proceeds of disposition of your rental property, **minus** any related costs or expenses; or
  - the capital cost.
- Subtract the least amount selected from above (the amount in column 3 **minus** the amount in column 4, **divided** by 2).
- Enter 50% of the result in column 6 (column 3 **minus** column 4 **divided** by 2). If the result is below zero, enter "0."

In some cases, there are no adjustments to make in column 6. For example, you may have bought rental property in a non-arm's length transaction and, until you purchased it, the seller owned the property for 364 days before the end of the current year.

Some properties are not subject to the half-year rule. Some examples are properties in Classes 13, 34, 52, and most small tools in Class 12.

The half-year rule may not apply if the rental property is available for use in the second year after you acquired the rental property. For more information on the half-year rule, see Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance*.

Column 7 – Base amount for CCA

The base amount for CCA is the undepreciated capital cost amount after additions, dispositions and the current year adjustments. This is the amount in column 5 minus the amount in column 6. The CCA rate is applied to this amount.

Column 8 – CCA Rate (%)

Enter the prescribed CCA rate (percentage) for each property class you have listed in Area A column 1.

For more information on these rates, see "Classes of depreciable property" on page 16.

Column 9 – CCA for the year

In column 9, enter the CCA amount you want to deduct for the year. You can claim the CCA for the year up to the maximum amount allowed. To calculate that amount, **multiply** the base amount for CCA by the CCA rate (percentage). In Area A, you calculate the maximum amount for column 9 by multiplying the amount in column 7 by the amount in column 8. For more information, see "Limits on CCA" on page 16.

To get your CCA yearly total, **add** up all amounts in column 9. Enter this result at line 9936. If you are a co-owner, enter only your share of the CCA.

Column 10 – UCC at the end of the year

The final result in column 10 is the undepreciated capital cost (UCC) at the end of the year. This is the result of the UCC after additions and dispositions in column 5, **minus** the amount for capital cost allowance claimed for the year in column 9. The amount in column 10 is the starting UCC balance you will use when you calculate your CCA claim next year. Next year, enter this amount in column 2. If you have a terminal loss or a recapture of CCA, enter "0" in column 10.

Special situations

This section describes the special situations and how the tables in Areas B, C, D and E help break down and display the calculations for these situations.

Changing from personal to rental use

If you bought a property for personal use and then changed the use to a rental in your rental operation in the current tax year, it becomes a change of use. You need to determine the capital cost of the property at the moment of this change in use.

If the FMV of a depreciable property (such as equipment or a building) is less than its original cost when you change its use, the amount you put in column 3 of Area B or C is the FMV of the property (excluding the land value if the property includes land and a building). If the FMV is more than the original cost of the property when you change use, use the following chart to determine the amount to enter in column 3.

> **Note**
> We consider you to have acquired the land for an amount equal to the FMV when you changed its use. Enter this amount at line 9923 in Area F, "Land additions and dispositions in the year."

Capital cost calculation (change in use)

Actual cost of the property			$__________ 1
FMV of the property	$__________ 2		
Amount from line 1	$__________ 3		
Line 2 **minus** line 3 (if negative, enter "0")	$__________ 4		
Enter any capital gains deduction claimed for the amount at line 4.*	$__________	×2 =	$__________ 5
Line 4 **minus** line 5 (if negative, enter 0")	$__________	×1/2=	$__________ 6
Capital cost Line 1 plus line 6			$__________ 7

* Enter the amount that relates only to the depreciable property.

Grants, subsidies, and other incentives or inducements

You may get a grant or subsidy from a government or a government agency to buy depreciable property. When this happens, the grant reduces the cost of the land and depreciable property proportionately. For example, you buy a rental property at a cost of $200,000 ($50,000 for the land and $150,000 for the building) and receive a $50,000 grant. The $50,000 grant is split in a similar way between the land and building. The total cost of the purchase is reduced to $150,000: $37,500 for the land and $112,500 for the building. Enter the reduced capital cost in column 3 of Area B or C. For more information, see archived Interpretation Bulletin IT-273, *Government Assistance – General Comments.*

You may get an incentive from a non-government agency to buy depreciable property. If this happens, you can either include the amount in income or subtract the amount from the capital cost of the rental property.

If the purchase price of your property was reduced due to poor quality or for other reasons, see Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance*, for more information about how to calculate your capital cost.

Non-arm's length transactions

When you acquire rental property in a **non-arm's length** (see "Definitions" on page 4) transaction, there are special rules for determining the property's capital cost. These special rules do not apply if you get the property because of someone's death.

If you pay **more** for the rental property than the seller paid for the same rental property, calculate the cost as follows:

Capital cost calculation (non-arm's length transaction)

The seller's cost or capital cost		$________	1
The seller's proceeds of disposition	$________ 2		
Amount from line 1	$________ 3		
Line 2 **minus** line 3 (if negative, enter "0")	$________ 4		
Enter any capital gains deduction claimed for the amount at line 4.*	$________ ×2	=$________	5
Line 4 **minus** line 5 (if negative, enter "0")	$________ ×1/2=	$________	6
Capital cost Line 1 **plus** line 6		$________	7

* Enter this amount in column 3 of either Area B or C, whichever applies. Do not include the cost of the related land; instead, include the cost of the related land at line 9923 in Area F, "Total cost of all land additions in the year."

You can also buy depreciable property in a non-arm's length transaction from a corporation or from an individual who is not resident in Canada, or from a partnership with no partners who are individuals resident in Canada or with no partners that are other partnerships.

If you pay **more** for the rental property than the seller paid for the same rental property, calculate the capital cost as follows:

Capital cost calculation (non-arm's length, non-resident transaction)

The seller's cost or capital cost		$________	1
The seller's proceeds of disposition	$________ 2		
Amount from line 1	$________ 3		
Line 2 minus line 3 (if negative, enter "0")	$________ ×1/2=	$________	4
Capital cost Line 1 **plus** line 4		$________	5

Enter this amount in column 3 of either Areas B or C, whichever applies. Do not include the cost of the related land. Include the cost of the related land at line 9923 in Area F, "Total cost of all land additions in the year."

If you buy depreciable property in a non-arm's length transaction and pay **less** for it than the seller paid, your capital cost is the same amount as the seller paid. The difference between what you paid and what the seller paid is considered to be deducted as CCA.

Example
Teresa bought a refrigerator from her father, Roman, for $400 to use in her rental operation. Roman paid $1,000 for the refrigerator and was using it in his rental operations. Since the amount Teresa paid is **less** than the amount Roman paid, we consider Teresa's cost to be $1,000. We also consider that Teresa has deducted CCA from the amount of $600 in the past ($1,000 – $400).

- In Area B, Teresa enters $1,000 in column 3, "Total cost."
- In Area A, she enters $400 in column 3, "Cost of additions in the year," as the addition for the current tax year.

For more information on non-arm's length transactions, see Income Tax Folio S1-F5-C1, *Related persons and dealing at arm's length.*

Selling your rental property

If you sell a rental property for more than it cost, you may have a capital gain. List the dispositions of all your rental properties on Schedule 3, *Capital Gains (or Losses)*. For information on how to calculate your taxable capital gain, see Guide T4037, *Capital Gains*.

If you are a member of a partnership that has a capital gain, the partnership will allocate part of that gain to you. The gain will show on the partnership's financial statements or in box 151 of your T5013 slip. Report the gain at line 174 of Schedule 3, *Capital Gains (or Losses)*.

Note
You cannot have a capital loss when you sell depreciable property. However, you can have a terminal loss. For an

explanation of terminal loss, see "Column 5 – UCC after additions and dispositions" on page 21.

Disposing of a building

If you disposed of a building in the current tax year, special rules may apply making the proceeds of disposition differ from the **actual** proceeds of disposition. This happens when you meet **both** the following conditions:

- you disposed of the building for an amount less than its cost amount, as calculated below, and its capital cost to you; and
- you, or a person with whom you do not deal at arm's length, owned the land the building is on, or the land next to it, which was necessary for the building's use.

Calculate the cost amount as follows:

- if the building was the only property in the class, the cost amount is the UCC of that class before you disposed of the building;
- if more than one property is in the same class, you have to calculate the cost amount of each building as follows:

$$\frac{\text{Capital cost of the building}}{\text{Capital cost of all properties in the class not previously disposed of}} \times \text{UCC of the class} = \text{Cost amount of the building}$$

Note
If a building acquired in a non-arm's length transaction was previously used for something other than producing income, the capital cost of the property will need to be recalculated to determine the cost amount of the building.

If you disposed of a building under these conditions, and you or a person with whom you do not deal at arm's length disposed of the land in the same year, calculate your deemed proceeds of disposition as shown in Calculation A on the next page. If you, or a person with whom you do not deal at arm's length, did not dispose of the land in the same year as the building, calculate your deemed proceeds of disposition for the building as shown in Calculation B on the next page.

Calculation A – Land and building disposed of in the same year

1. FMV of the building when you disposed of it		$______ 1			
2. FMV of the land just before you disposed of it	+	$______ 2			
3. Line 1 **plus** line 2	=	$______	>		$______ 3
4. Seller's adjusted cost base of the land		$______ 4			
5. Total capital gains (without reserves) from any disposition of the land (such as a change in use) by you, or by a person not dealing at arm's length with you, in the three-year period before you disposed of the building, to you or to another person not dealing at arm's length with you	–	$______ 5			
6. Line 4 **minus** line 5 (if negative, enter "0")	=	$______ 6			
7. Line 2 or line 6, (whichever amount is **less)**				–	$______ 7
8. Line 3 **minus** line 7 (if negative, enter "0")				=	$______ 8
9. Cost amount of the building just before you disposed of it		$______ 9			
10. Capital cost of the building just before you disposed of it		$______ 10			
11. Line 9 or line 10, whichever amount is less		$______ 11			
12. Line 1 or line 11, whichever amount is more					$______ 12
Deemed proceeds of disposition for the building					
13. Line 8 or line 12, whichever amount is less (enter this amount in column 3 of Area E)					$______ 13
Deemed proceeds of disposition for the land					
14. Proceeds of disposition of the land and building					$______ 14
15. Amount from line 13				–	$______ 15
16. Line 14 minus line 15 (enter this amount at line 9924 of Area F)				=	$______ 16

If you have a terminal loss on the building, include it at line 9948, "Terminal loss."

Calculation B – Land and building disposed of in different years

1. Cost amount of the building just before you disposed of it	$______ 1			
2. FMV of the building just before you disposed of it	$______ 2			
3. Line 1 or line 2, whichever amount is more				$______ 3
4. Actual proceeds of disposition, if any			–	$______ 4
5. Line 3 **minus** line 4			=	$______ 5
6. Amount from line 5	$______	×1/2	=	$______ 6
7. Amount from line 4			+	$______ 7
Deemed proceeds of disposition for the building				
8. Line 6 plus line 7 (enter this amount in column 3 of Area E)			=	$______ 8

If you have a terminal loss on the building, include it at line 9948, "Terminal loss."

Usually, you can deduct 100% of a terminal loss, but only 50% of a capital loss. Calculation B ensures that you use the same percentage to calculate both a terminal loss on a building and a capital loss on land. As a result of this calculation, you **add** 50% of the amount at line 5 to the actual proceeds of disposition from the building (see "Terminal loss" on page 21).

Replacement property

In a few cases, you can postpone or defer including a capital gain or recapture in income. For example, your rental property might be stolen, destroyed, or expropriated, and you replace it with similar property.

You can also defer a capital gain or recapture when you transfer rental property to a corporation or partnership. For more information, see:

- Information Circular IC76-19, Transfer of Property to a Corporation Under Section 85;
- archived Interpretation Bulletin IT-291, Transfer of Property to a Corporation Under Subsection 85(1);
- archived Interpretation Bulletin IT-378, *Winding-up of a Partnership*; and
- archived Interpretation Bulletin IT-413, Election by Members of a Partnership Under Subsection 97(2).

Example

During the current tax year, Paul bought a house to use for rental purposes. For CCA purposes, the building is classified as Class 1 with a 4% rate. It is his only rental property. The total cost was $95,000 ($90,000 total purchase price plus $5,000 total expenses connected with the purchase). The details are as follows:

Building value (Class 1)		$75,000
Land value	+	$15,000
Total purchase price	=	$90,000
Expenses connected with the purchase		
Legal fees		$ 3,000
Land transfer taxes	+	$ 2,000
Total fees	=	$ 5,000

Paul's rental income was $6,000 and his rental expenses were $4,900. Net rental income before deducting CCA was $1,100 ($6,000 – $4,900). Paul wants to deduct as much CCA as he can.

Before Paul can complete Area A, he has to calculate the capital cost of the building. Since land is not depreciable property, he has to calculate the expenses part connected with the purchase which relate only to the building. To do this, he has to use the formula in the section "Land" on page 20.

$$\text{Part of the fees Paul can include in the building's cost} = \frac{\text{Building value}}{\text{Total purchase price}} \times \text{Expenses}$$

$$= \frac{\$75{,}000.00}{\$90{,}000.00} \times \$5{,}000$$

$$= \$\ 4{,}166.67$$

The $4,166.67 is the part of the $5,000 in legal fees and land transfer taxes that relates to the purchase of the building, while the remaining $833.33 relates to the purchase of the land. The capital cost of the building is:

Building value (Class 1)		$ 75,000.00
Related expenses	+	$ 4,166.67
Capital cost of the building	=	$ 79,166.67

Paul enters $79,166.67 in column 3 of Area C. He includes $15,833.33 ($15,000 + $833.33) at line 9923 of Area F as the capital cost of the land.

Paul never owned rental property before the current year. Therefore, he has no undepreciated capital cost (UCC) to enter in column 2 of Area A.

Since Paul acquired his rental property during the current year, he is subject to the half-year rule explained in "Column 6 – Adjustment for current-year additions" on page 21.

His net rental income before CCA is $1,100. Paul cannot claim CCA for more than $1,100 because he cannot use his CCA to create a rental loss (see "Limits on CCA" on page 16). This is the case even though he would otherwise be entitled to claim $1,583.33 [($79,166.67 × 50%) × 4%].

Chapter 5 – Principal residence

When you sell your home, you may realize a capital gain. If the property was used solely as your principal residence for every year you owned it, you do not have to pay tax on the gain. If at any time during the period you owned the property, it was not your principal residence, or used solely as your principal residence, you may have to pay tax on all or part of the capital gain.

If you sold property in 2017 that was, at any time, your principal residence, you must report the sale on Schedule 3, *Capital Gains (or Losses) in 2017* and Form T2091(IND), *Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust).* See Schedule 3 and Form T2091(IND) for more information on reporting requirements.

If you want more information after reading this chapter, see Income Tax Folio S1-F3-C2, *Principal Residence*.

What is your principal residence?

Your principal residence can be any of the following types of housing units:

- a house;
- a cottage;
- a condominium;
- an apartment in an apartment building;
- an apartment in a building such as a duplex or triplex; or
- a trailer, mobile home, or houseboat.

A property qualifies as your principal residence, for any year, if it meets **all** of the following conditions:

- it is a housing unit, a leasehold interest in a housing unit, or a share of the capital stock of a co-operative housing corporation you acquire only to get the right to inhabit a housing unit owned by that corporation;
- you own the property alone or jointly with another person;
- you, your current or former spouse or common-law partner, or any of your children lived in it at some time during the year; and
- you designate the property as your principal residence.

The land on which your home is located can be part of your principal residence. Usually, the amount of land that you can consider as part of your principal residence is limited to one-half hectare (1.24 acres). If you can show that you need more land to use and enjoy your home, you can consider more than 1.24 acres as part of your principal residence. For example, this may happen if the minimum lot size imposed by a municipality at the time you bought the property is larger than one-half hectare.

Designating a principal residence

You designate your home as your principal residence when you sell or are considered to have sold all or part of it. You can designate your home as your principal residence for the years that you own and use it as your principal residence. However, you do not have to designate it as such for each year. For more information, see Form T2091(IND), *Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust)*, and Form T1255, *Designation of a Property as a Principal Residence by the Legal Representative of a Deceased Individual*.

Can you designate more than one principal residence?

For 1982 and later years, you can only designate one home as your family's principal residence for each year. For more information, see Income Tax Folio S1-F3-C2, *Principal Residence*.

For 1982 to 2000, if you **had a spouse or were 18 or older**, your family included:

- you;
- a person who throughout the year was your spouse (unless you were separated for the entire year under the terms of a court order or a written agreement); and
- your children (other than a child who had a spouse during the year or who was 18 or older).

If you **did not have a spouse and were not 18 or older**, your family **also** included:

- your mother and father; and
- your brothers and sisters (who did not have spouses and were not 18 or older during the year).

For 1993 to 2000, since a spouse included a common-law spouse, common-law spouses could not designate different housing units as their principal residences for any of those years.

> **Note**
> If you elected to have your same-sex partner considered as your common-law partner for 1998, 1999, or 2000, then, for those years, your common-law partner also could not designate a different housing unit as his or her principal residence.

After the year 2000, the above definition applies except that the reference to spouse is replaced by "spouse or common-law partner". Neither spouses nor common-law partners (see "Definitions" on page 4) can designate different housing units as their principal residence.

For years before 1982, more than one housing unit per family can be designated as a principal residence. Therefore, a husband and wife can designate different principal residences for these years. However, a special rule applies if members of a family designate more than one home as a principal residence. For more information, see Income Tax Folio S1-F3-C2, *Principal Residence*.

Disposition of your principal residence

When you sell your home or when you are considered to have sold it, usually you do not have to pay tax on any gain from the sale. This is the case if the property was used solely as your principal residence for every year you owned it. If you sold your home in 2017 and it was your principal residence for every year you owned it, you have to report the sale by ticking box 1 at line 179 on page 2 of Schedule 3, *Capital Gains (or Losses) in 2017* and completing page 1 of Form T2091(IND), *Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust)*.

For the sale of a principal residence in 2017, we will only allow the principal residence exemption if you report the disposition and designation of your principal residence on your income tax return. If you forget to make this designation in the year of the disposition, it is very important to ask us to amend your income tax return for that year. Under proposed changes, we will be able to accept a late designation in certain circumstances, but a penalty may apply.

If your home was **not** your principal residence for every year that you owned it, you have to report the amount of the capital gain on the property that relates to the years you did not designate it as your principal residence. To do this, fill in Form T2091(IND) (see the next section). You are also required to complete the applicable sections of Schedule 3 as indicated on page 2 of the schedule.

If only a part of your home qualifies as your principal residence and you used the other part to earn or produce income, you 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, such as rental or business. You can do this by using square metres or the number of rooms, as long as the split is reasonable. Report on line 138 of Schedule 3 only the gain on the part you used to produce income. For more information, see Income Tax Folio S1-F3-C2, *Principal Residence*. You are also required to complete page 2 of Schedule 3 to report the sale of your principal residence.

There are certain situations in which we will consider the entire property maintains its nature as a principal residence in spite of the fact that you have used it for income producing purposes. However, all of the following conditions must be met:

- The income producing use is ancillary to the main use of the property as a residence.
- There is no structural change to the property.
- No capital cost allowance is claimed on the property.

This situation could occur, for example, where the property is used as a home day care. For more information, see Income Tax Folio S1-F3-C2, *Principal Residence*.

If you sold more than one property in the same calendar year and each property was, at one time, your principal residence, you must show this by completing a separate Form T2091(IND) for each property to designate what years each was your principal residence and to calculate the amount of capital gain, if any, to report on line 158 of Schedule 3, *Capital Gains (or Losses) in 2017*.

For more information on how to report the capital gain resulting from the disposition of your principal residence, see Guide T4037, *Capital Gains*.

Form T2091(IND), *Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust)*, and Form T1255, *Designation of a Property as a Principal Residence by the Legal Representative of a Deceased Individual*

Use Form T2091(IND) to designate a property as a principal residence. This form will help you calculate the number of years that you can designate your home as your principal residence, and the part of the capital gain, if any, that you have to report. Fill in this form if you:

- sold, or were considered to have sold, your principal residence or any part of it; or
- granted someone an option to buy your principal residence or any part of it.

> **Note**
> A legal representative of a deceased person (executor, administrator, or a liquidator in Quebec) must use Form T1255, *Designation of a Property as a Principal Residence by the Legal Representative of a Deceased Individual,* to designate a property as a principal residence for the deceased.

Did you or your spouse or common-law partner file Form T664 or Form T664 (Seniors)? – Use Form T2091(IND) to calculate the capital gain if you sell, or are considered to have sold, a property for which you or your spouse or common-law partner previously filed Form T664 or Form T664 (Seniors), *Election to Report a Capital Gain on Property Owned at the End of February 22, 1994*, and:

- the property was your principal residence for 1994; or
- you are designating it in the current tax year as your principal residence for any year.

Use Form T2091(IND)-WS, *Principal Residence Worksheet*, to calculate a reduction from the capital gains election. If the property was designated as a principal residence for the purpose of the capital gains election, you have to include those previous years it was designated in the current year.

> **Note**
> If, at the time of the election, the property was designated as a principal residence for any tax year other than 1994, you can choose to designate it again as your principal residence when you sell it or are considered to have sold it. If you choose to designate it again, you have to include those previously designated tax years as part of your principal residence designation in the current tax year.

If the property was not your principal residence for 1994 and you are not designating it in 2017 as your principal residence for any tax year, do not use Form T2091(IND) and Form T2091(IND) WS to calculate your capital gain. Instead, calculate your capital gain, if any, in the regular way (proceeds of disposition minus the adjusted cost base and outlays and expenses).

Change in use

You can be considered to have sold all or part of your property even though you did not actually sell it.

For example, this is the case when:

- you change all or part of your principal residence to a rental property;
- you change your rental property to a principal residence; or
- you stop using a property to earn or produce income.

Every time you change the use of a property, you are considered to have sold the property at its fair market value and to have immediately reacquired the property for the same fair market value, unless you make an election as described below. The resulting capital gain or capital loss (in certain situations) must be reported in the year the change of use occurs.

If the property was your principal residence for any year you owned it before you changed its use, you do not have to pay tax on any gain that relates to those years. You only have to report the gain that relates to the years your home was not your principal residence.

> **Note**
> Your home is personal-use property for your own use. If you have a loss when we consider you to have sold your home because of a change in use, you are not allowed to claim the loss.

Special situations

There are situations to which the change-in-use rules stated above do not apply. The following are some of the more common situations.

Changing your principal residence to a rental property

When you change your principal residence to a rental property, you can make an election not to be considered as having started to use your principal residence as a rental property. This means you do not have to report any capital gain when you change its use. If you make this election:

- you have to report the net rental income you earn; and
- you cannot claim CCA on the property.

While your election is in effect, you can designate the property as your principal residence for up to four years, even if you do not use your property as your principal residence. You can only do this if you do not designate any other property as your principal residence for that same time period.

You can **extend** the four-year limit for an unlimited time if **all** of the following conditions are met:

- you live away from your principal residence because your employer, or your spouse's or common-law partner's employer, wants you to relocate;
- you and your spouse or common-law partner are not related to the employer;
- you return to your original home while you or your spouse or common-law partner are still with the same employer or before the end of the year after the year in which this employment ends, or you die during the term of employment; and
- your original home is at least 40 kilometres (by the shortest public route) farther than your temporary residence from your or your spouse's or common-law partner's new place of employment.

If you make this election, there is no immediate effect on your tax situation when you move back into your residence. If you change the use of the property again and do not make this election again, any gain you have from the sale of the property is a capital gain and may be subject to tax.

To make this election, attach a letter signed by you, and send it with your income tax and benefit return. If you are filing your taxes electronically, send this letter to your tax centre. To find your tax centre go to **canada.ca/cra-offices**. The letter must describe the property and state that you are making an election under **subsection 45(2)** of the *Income Tax Act*.

If you started to use your principal residence as a rental or business property in the year, you may want information on how you should report your business or property income. If so, see Guide T4002, *Self-employed Business, Professional, Commission, Farming, and Fishing Income*.

Changing your rental property to a principal residence

When you change your rental property to a principal residence, you can elect to postpone reporting the disposition of your property until you actually sell it. However, you cannot make this election if you, your spouse or common law partner, or a trust under which you or your spouse or common law partner is a beneficiary has deducted CCA on the property for any tax year after 1984, and on or before the day you change its use.

This election only applies to a capital gain. If you claimed CCA on the property before 1985, you have to include any recapture of CCA in your rental income. Include the income in the year the property use was changed:

- You **cannot** make this election if you or your spouse or common-law partner, or a trust under which you, your spouse or common-law partner is a beneficiary, has deducted CCA on the property for any tax year after 1984 and on or before the day you change its use.
- To make this election, attach a letter signed by you, and send it with your income tax and benefit return. If you are filing your return electronically, send the letter to your tax centre. To find the address for your tax centre, go to **canada.ca/cra-offices** The letter should describe the property and state that you are making an election under **subsection 45(3)** of the *Income Tax Act*.
- You have to make this election by the earlier of the following dates:
  - 90 days after the date we ask you to make the election; or
  - the date you have to file your income tax and benefit return for the year in which you sell the property.

If you make this election, you can designate the property as your principal residence for up to four years before you occupy it as your principal residence.

Changing part of your principal residence to a rental property

You are usually considered to have changed the use of part of your principal residence when you start to use that part for rental purposes. However, you are not considered to have changed its use if:

- the part you use for rental purposes is small in relation to the whole property;
- you do not make any structural changes to the property to make it more suitable for rental purposes; and
- you do not deduct any CCA on the part you are using for rental purposes.

If you meet all these conditions, the whole property may qualify as your principal residence even though you are using part of it for rental purposes.

If you do not meet all of the above conditions, when you sell or change the use of the property, you have to keep the following in mind. You will have a deemed disposition of the portion of property that had the change of use and immediately after, you will be deemed to have reacquired that portion of property. The proceeds of disposition and the cost of the reacquisition will be equal to the proportionate share of the FMV of the property, determined at that time. Additionally, in the year the partial change in use occurs, you must make a principal residence designation by ticking box 1 at line 179 on page 2 of Schedule 3, *Capital Gains (or Losses) in 2017* and page 1 of Form T2091 (IND), *Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust)*.

As a result, when you actually sell the property you have to:

- split the selling price between the part you used for your principal residence and the part you used for rental or business purposes. We will accept a split based on square metres or the number of rooms as long as the split is reasonable; and
- report any capital gain on the part you used for rental or business purposes as well as make a principal residence designation by completing Schedule 3. You do not have to report any capital gain for the part you used for your principal residence

For more information, see "Real estate, depreciable property, and other properties" on page 16 of Guide T4037, *Capital Gains*.

> **Note**
> If there is only a partial change in the use of a property, you cannot file an election under subsection **45(2)** of the Income Tax Act.

Online services

My Account

The CRA's My Account service is fast, easy, and secure.
Use My Account to:

- view your benefit and credit payment amounts and dates;
- view your notice of assessment;
- change your address, direct deposit information, and marital status;
- sign up for account alerts;
- check your TFSA contribution room and RRSP deduction limit;
- check the status of your tax return;
- request your proof of income statement (option 'C' print); and
- link between your CRA My Account and My Service Canada Account.

How to register
For information, go to **canada.ca/my-cra-account**.

Handling business taxes online

Use the CRA's online services for businesses throughout the year to:

- make payments to the CRA by setting up pre-authorized debit agreements in My Business Account or by using the My Payment service;
- file a return, view the status of filed returns and amend returns online;
- submit documents to the CRA;
- authorize a representative for online access to your business accounts;
- register for online mail to get mail from the CRA directly in My Business Account;
- change addresses;
- manage direct deposit information;
- view account balance and transactions;
- calculate a future balance;
- transfer payments and immediately view updated balances;
- add another business to your account;
- submit account related enquiries and view answers to common enquiries;
- submit an enquiry about your audit;
- download reports; and
- much more.

To log in to or register for the CRA's online services, go to:

- My Business Account at **canada.ca/my-cra-business-account**, if you are a business owner; or
- Represent a Client at **canada.ca/taxes-representatives**, if you are an authorized representative or employee.

For more information, go to **canada.ca/taxes-business-online**.

Sign up for online mail

Sign up for the CRA's online mail service to get most of your CRA mail, like your notice of assessment, online.

For more information, go to **canada.ca/my-cra-account**.

Authorizing the withdrawal of a pre determined amount from your bank account

Pre authorized debit (PAD) is a flexible online payment option managed by you. Through this option, you agree to authorize the CRA to withdraw a pre determined amount from your bank account to pay tax on a specific date or dates. You can set up a PAD agreement using the CRA's secure My Business Account service at **canada.ca/my-cra-business-account**. You can view historical records, modify, cancel, or skip a payment. For more information, go to **canada.ca/payments** and select "Pre authorized debit."

MyCRA – Mobile app

Use MyCRA throughout the year to:

- view the amounts and dates of your personal benefit and credit payments;
- check your TFSA contribution room;
- change your address, direct deposit information, and marital status;
- let us know if a child is no longer in your care;
- sign up for online mail and account alerts; and
- request your proof of income statement (option "C" print).

Getting ready to file your income tax and benefit return? Use MyCRA to:

- check your RRSP deduction limit;
- look up a local tax preparer; and
- see what tax filing software the CRA has certified.

Done filing? Use MyCRA to:

- check the status of your tax return; and
- view your notice of assessment.

For more information, go to **canada.ca/cra-mobile-apps**.

Electronic payments

Make your payment using:

- your financial institution's online or telephone banking services;
- the CRA's My Payment service at **canada.ca/cra-my-payment**; or
- pre-authorized debit at **canada.ca/my-cra-account**.

For more information, go to **canada.ca/payments**.

For more information

What if you need help?

If you need more information after reading this publication, visit **canada.ca/en/revenue-agency** or call **1-800-959-8281**.

Direct deposit

Direct deposit is a fast, convenient, reliable, and secure way to get your CRA payments directly into your account at a financial institution in Canada.

You can view your direct deposit information and online transactions at **canada.ca/my-cra-business-account**.

To enrol for direct deposit or to update your banking information, go to **canada.ca/cra-direct-deposit**.

Forms and publications

To get our forms and publications, go to **canada.ca/cra-forms** or call **1-800-959-8281**.

Electronic mailing lists

The CRA can notify you by email when new information on a subject of interest to you is available on the website. To subscribe to the electronic mailing lists, go to **canada.ca/cra-email-lists**.

Tax Information Phone Service (TIPS)

For personal and general tax information by telephone, use our automated service, TIPS, by calling **1-800-267-6999**.

Teletypewriter (TTY) users

If you have a hearing or speech impairment and use a TTY, call **1-800-665-0354**.

If you use an operator-assisted relay service, call our regular telephone numbers instead of the TTY number.

Service complaints

You can expect to be treated fairly under clear and established rules, and get a high level of service each time you deal with the CRA. See the *Taxpayer Bill of Rights*.

If you are not satisfied with the service you received, try to resolve the matter with the CRA employee you have been dealing with or call the telephone number provided in the CRA's correspondence. If you do not have contact information, go to **canada.ca/cra-contact**.

If you still disagree with the way your concerns were addressed, you can ask to discuss the matter with the employee's supervisor.

If you are still not satisfied, you can file a service complaint by filling out Form RC193, *Service-Related Complaint*. For more information and how to file a complaint, go to **canada.ca/cra-service-complaints**.

If the CRA has not resolved your service-related complaint, you can submit a complaint with the Office of the Taxpayers' Ombudsman.

Reprisal complaint

If you believe that you have experienced reprisal, fill in Form RC459, *Reprisal Complaint*.

For more information about reprisal complaints, go to **canada.ca/cra-reprisal-complaints**.

Tax information videos

We have a tax information video series for new small businesses that provides an introduction to topics such as registering a business, GST/HST, and payroll. To watch our videos, go to **canada.ca/cra-video-gallery**.