

2016 FEDERAL LIBERAL PARTY TAX CHANGES

Our goal as tax practitioners is to help clients manage their tax concerns more effectively in what has become an increasingly complex environment. Fazzari + Partners LLP provides comprehensive tax services in such areas as consulting, compliance, and dealing with tax authorities. Our team has both the knowledge and experience to provide meaningful answers to your tax issues.

The information in this Tax Bulletin is of a general nature and is in summary form.

Contact one of our tax professionals to discuss these matters in the context of your situation before acting upon such information.

For more information, please visit fazzaripartners.com or contact Joan Camilleri at 905-738-5758 ext. 235.

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PRINCIPAL RESIDENCE EXEMPTION:

The Liberal government has proposed changes to the PRINCIPAL RESIDENCE EXEMPTION (PRE) that will limit the availability of the PRE to non-residents and specific trusts and expands reporting requirements.

REPORTING REQUIREMENTS

Previously, taxpayers were only required to report a sale of a principal residence if it was not fully covered by the PRE. Finance will now require all taxpayers to report the sale of a property when the PRE is being claimed even if there is no capital gain. This is effective for sales that have occurred on or after January 1, 2016.

PRE FOR NON-RESIDENTS

The proposed amendments to the PRE rules will eliminate eligibility for the exemption in the year a non-resident acquires a qualifying property. This change effectively ensures a permanent non-resident cannot benefit from the exemption for the year of acquisition on any gain from a sale of a principal residence. This applies to sales occurring after October 2, 2016.

PRE FOR TRUSTS

The amendments proposed by Finance also limit the types of trusts that are eligible to designate a property as a principal residence.

The rules eligible for the exemption:

- 1 Alter ego, spousal or common-law partner trust or certain trusts or the exclusive benefit of the settlor during the settlor's lifetime;
- 2 A testamentary trust that is a qualified disability trust;
- 3 Inter-vivos or testamentary trust for the benefit of a minor child of deceased parents.

It is also a requirement that the trust's beneficiary who occupies the residence be a resident of Canada in the year. This is effective for a tax year beginning after 2016.

EXTENSION OF THE NORMAL REASSESSMENT PERIOD

Generally, for most taxpayers the normal reassessment period for the CRA to reassess tax is three years after the date of initial assessment. Proposed amendments will extend the ability for the CRA to reassess taxpayers and partnerships beyond the normal reassessment period if the taxpayer or a partnership does not report a disposition of real property in the year.

PLANNING:

TRANSITIONAL RELIEF IS AVAILABLE

The proposed amendments allow transitional relief for trusts that own a principal residence at the end of 2016 but will not qualify as one of the three categories going forward. This relief allows for the trust to benefit from the PRE on accrued gains up to the end of 2016. The trust will notionally dispose of the residence for proceeds equal to its fair market value on December 31, 2016 and reacquire the property on January 1, 2017 at cost equal to the proceeds. Any subsequent dispositions must follow the proposed amendments and the capital gain will be calculated accordingly.

TAX FREE DISTRIBUTION

Trusts that no longer qualify for the PRE may be able to distribute the property tax free on a rollover basis to a beneficiary who occupies the property. The beneficiary can then dispose of the property and claim the PRE.

