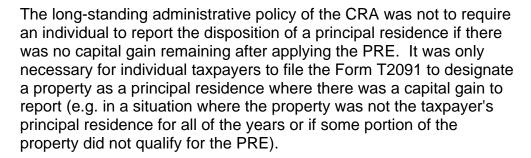


Dollars and Sense

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REPORTING NOW REQUIRED TO CLAIM THE PRINCIPAL RESIDENCE EXEMPTION ("PRE")

By Ian V. MacInnis



Starting in 2016 (i.e., for dispositions of a principal residence that occur on or after January 1, 2016), the CRA now requires that the sale of a principal residence be reported on Schedule 3, *Capital Gains* on the taxpayer's T1 return in order to qualify for the PRE.

The Schedule 3 has been revised to permit a designation of a property that was disposed of to be a principal residence. The Schedule requires the disclosure of the year of acquisition, the proceeds of disposition and a description of the property being designated as a principal residence. It should be noted that deemed dispositions of a principal residence will also be required to be reported on the T1 return, such as deemed dispositions arising as a result of a change-in-use or the death of the owner.

In a news release dated March 6, 2017, the CRA states that if the home did not qualify as a principal residence for every year it was owned by a taxpayer, the taxpayer would have to report the part of the capital gain on the property that relates to the years for which the property was not designated as a PRE. In order to do this, the taxpayer is required to complete Form T2091, as well as completing the applicable sections of Schedule 3 on page 2 of the Schedule. In the case of the estate of a deceased taxpayer, the designation of a PRE would be made using Form T1255.

If a taxpayer sold more than one property in the same calendar year and each property was at one time, a principal residence of the taxpayer, the taxpayer must show this by ticking box 3 at Line 179 on page 2 of Schedule 3 and by providing the applicable information requested for each property on the same page. In addition, the



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taxpayer may have to complete a separate Form T2091 for each property to calculate the amount of the capital gain, if any, to report.

As a result of these new reporting requirements, the PRE will only be allowed where the sale and designation of the principal residence is reported on the taxpayer's tax return. This is a substantial change in administrative policy and may have harsh consequences to taxpayers unaware of the change.