



Did the Capital Gain on My House Just Become Taxable?

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On October 3, 2016, Minister of Finance Bill Morneau [announced a number of measures intended to ensure that Canada's housing market remains healthy, competitive and stable.](#)

These measures include several changes to the Principal Residence Deduction:

- Two loopholes that allowed some non-residents who never lived in Canada to claim the Principal Residence Deduction were eliminated.
- Additional restrictions were put on any Principal Residence Deduction claim made by a trust that sells a house.
- The time limit for when Canada Revenue Agency (CRA) can re-assess a taxpayer for unreported real estate sales was removed.
- A penalty was introduced for late filing your Principal Residence Deduction claim.

The last two changes are the ones that could cost you money on the sale of your home.

Before the October 3rd announcement, CRA's administrative policy said that you didn't have to report your gain on the sale of your house or claim your Principal Residence Deduction, if the result of doing both is no taxable capital gain.

The Income Tax Act has always said that you must report your gain on the sale of your home and claim your Principal Residence Deduction. This is because your house must qualify as your Principal Residence in every year that you own it except one (not just the year of the sale) for the Principal Residence Deduction to exempt all of your gain. A few of the reasons your house might not qualify as your Principal Residence in a particular year are:

- You did not live in it that year.
- In the past, you may have sold a cottage (or other property) that qualified for the Principal Residence Deduction and used it to reduce that taxable gain. (You can only have one Principal Residence for each year. You may have used the deduction for a year without realizing it, because of CRA's administrative policy about not reporting gains.)
- Your spouse may have sold a property that qualified for the Principal Residence Deduction and used it to reduce the taxable gain on that property. (Generally, a family unit can only have one Principal Residence for each year.)

The new penalty and new re-assessment rule both apply for 2016. CRA recently announced a change in their administrative policy. **Anyone who sells their home in 2016 (or later) must report the capital gain on their tax return, and claim the Principal Residence Deduction.** CRA will be applying the new penalty and reassessment rules to anyone who does not follow the new procedure.

<http://www.cra-arc.gc.ca/gncy/bdgt/2016/qa11-eng.html>

If you have any questions about the Principal Residence Deduction or other matters, please contact the [MRSB Tax Services team](#).