

Rental Property Investments by Non-Residents

Purchasing a property in Canada as a non-resident can be complex with regards to compliance with the Canadian income tax rules. This letter is intended to make foreign investors aware of the rules, as non-compliance can result in significant penalties.

As a non-resident of Canada, you may be subject to Canadian income taxes if you:

- Receive rent from Canadian real estate
- Dispose of Canadian real estate

Rental Property

If you own Canadian rental property as a non-resident, you must comply with rules in respect to:

- Withholding taxes
- Section 216 returns
- NR4 forms
- NR6 forms

Non-residents are subject to a 25% withholding tax on the gross amounts they receive from renting their property. This amount must be submitted to Canada Revenue Agency (CRA) by the 15th of the month following the payment by the agent or the renter of the property. If this is not done, penalties and interest will be charged on any unpaid amounts.

A Canadian tax return must be filed by April 30 of the year following the rental activity. This return details the income and expenses from the property for the year, and assesses taxes payable based on the net income. If this liability is less than the total amount withheld for the year, CRA will issue a refund of the excess contributions.

Each year your Canadian agent will provide an NR4 form summarizing the gross amounts paid to you and the amount of withholding tax submitted to CRA on your behalf. This form will be required to prepare your section 216 return.

In some cases, withholding taxes may be waived. In order to qualify, an NR6 form must be filled out and approved by CRA each year.

GST

GST is a value-added tax that is payable at the rate of 6% on certain sales and supplies in Canada. GST is typically charged on the purchase of a property; however, this amount may be avoided depending on the intended use. If the intended use is to provide more than 50% short-term rental and personal use is less than 10%, then you may be eligible to register for GST. This percentage will be based on the total number of days the property is rented.

If you register for GST prior to acquiring the property, you will not be required to pay GST to the vendor. As a GST registrant, you will be required to do the following:

- Collect GST on all short-term rents
- File an annual GST return
- Remit the net GST amount to CRA
- Charge GST on the eventual sale

Disposal

To ensure that non-residents comply with Canadian tax rules, the purchaser is required to withhold 25% of the gross proceeds and remit this to CRA. This amount may be reduced or eliminated upon approval of a clearance certificate by CRA.

If this certificate is approved, the amount withheld can be reduced to 25% of the difference between the gross proceeds and the cost. Once CRA issues the requested clearance certificate, the purchaser will only be required to remit the amount stated by CRA.

You will also be required to file one final return when you sell your rental property. This return is also due by April 30 and usually provided for an additional refund of the amount remitted for the clearance certificate as you are allowed to deduct real estate commissions from the gross proceeds.

Contact Us

If you need any further information or assistance, you can contact us by e-mail or by telephone.

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