What happens when the property is sold?

When real estate situated in Canada is sold by a non-resident, Canadian income taxes will be payable if the selling price is greater than the original cost of the property. A "prepayment" of 25% of your total capital gain is calculated and submitted with the T2062 form "Request by a Non-Resident of Canada for a Certificate of Compliance related to the disposition of Taxable Canadian property" to the CRA and must be filed within 10 days of the disposition, but preferably sooner. Legal counsel is required to holdback between 25-50% of your sales proceeds, in trust, until the CRA have processed the T2062 form and received the required payment. You may need to plan for this delay in cash flow, particularly if you have a mortgage to retire or other financial commitments.

The CRA will require documentation at the time of sale to support the cost of the property being sold. It is important that such documents be kept on file to avoid unnecessary income taxes on capital gains.

Documentation required includes the following:

- ☐ Property purchase documents, usually the "purchasers" statement of adjustments, and/or assignment document.
- ☐ Invoices for all capital type items or improvements that will be sold with the property.
- ☐ Canada Customs documents for goods imported into Canada. These should be requested from Canada Customs when the goods are imported.

Checklist of general information required to prepare your Canadian income tax and GST returns

- ☐ Revenue & Expense statement from property manager
- ☐ GST collected, if applicable
- ☐ Expenses paid to earn income from property
- ☐ Property management fees
- ☐ Tourism Whistler dues
- ☐ Insurance fees
- ☐ Strata fees
- ☐ Accounting fees
- ☐ Mortgage interest
- ☐ Repairs and maintenance
- ☐ Utilities
- ☐ Property taxes paid
- ☐ NR4 slip prepared by your property manager
- ☐ The number of days your rental property was used for personal purposes

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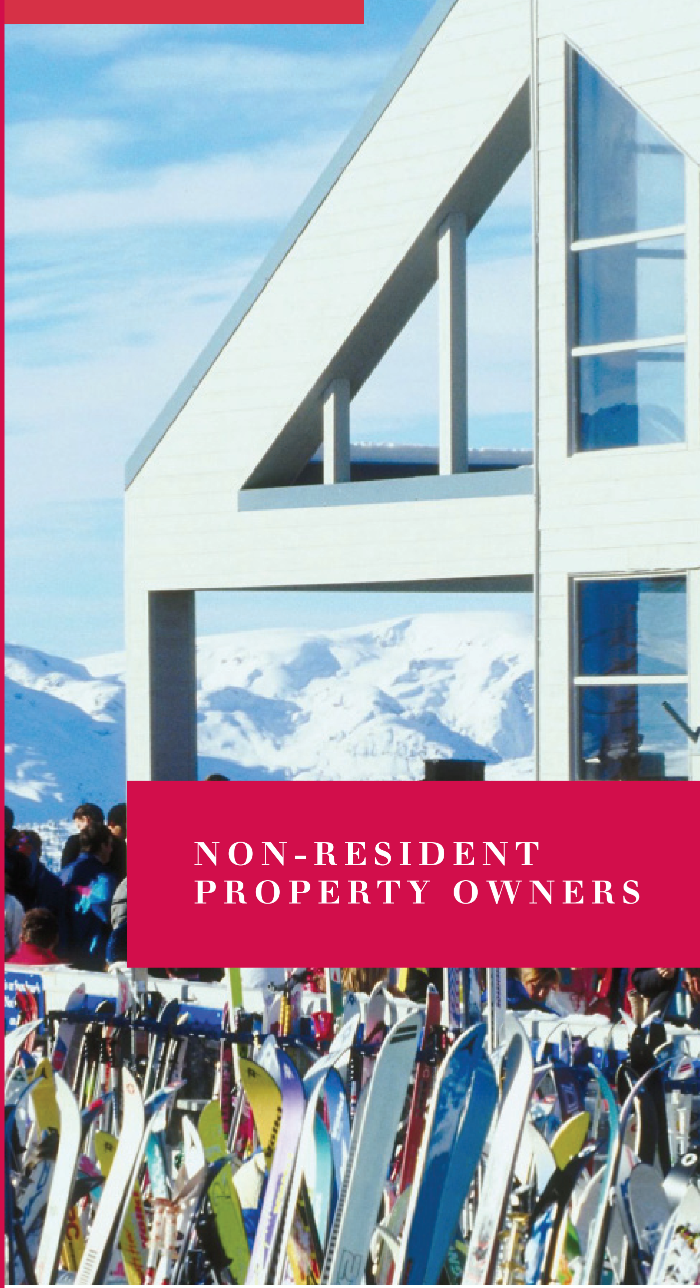

NON-RESIDENT PROPERTY OWNERS

BDO Dunwoody LLP
Chartered Accountants
and Advisors

Non-Resident Property Owners 2008

Who administers Canadian income tax?

Non-residents who earn income in Canada from properties they own in Canada are subject to tax by the Canada Revenue Agency (CRA). Income tax is calculated separately from other taxes such as Goods and Services Tax and municipal or local government property taxes, and may be based on gross or net rental income for the taxation year. The taxation year for individuals and certain other entities begins January 1 and ends December 31. For corporations it is their regular fiscal year end.

How much income tax?

Income tax on income from property is first collected at the source of payment. The CRA requires persons or businesses paying such income to non-residents, to withhold and remit 25% of the gross income from property (before deductions). The amount of tax withheld is indicated on form NR4, which is prepared by the person or business that withheld the tax. This withholding is a sort of prepayment of income taxes and normally will exceed the actual income tax liability. However, the CRA will keep the full amount of prepaid tax unless the non-resident files the appropriate Canadian income tax return by the due date. The actual income tax is determined when the income tax return is filed and assessed by the CRA. Income tax is paid only on the net income from property, which is the total income less allowable deductions, including depreciation. See the back side of the pamphlet for a list of expenses that may typically be deducted from property. The rate of income tax can vary but is a minimum of approximately 22.2% for individuals and 31% for corporations.

Can withholding tax be reduced?

The tax withheld at source can be reduced if the non-resident and an agent acting on your behalf (normally the property manager) jointly sign and file an NR6 election form (rental income property), or a regulation 805 waiver is filed for your property (business income property), and the CRA approval is obtained. These forms should be filed as soon as you purchase a property that you intend to earn income from, and before the beginning of each taxation year thereafter.

The NR6 form is an undertaking by the non-resident to file the appropriate Canadian income tax return, referred to as a Section 216 election or return, by the due date. It reduces your withholding tax to 25% of net income after deducting your expenses.

The 805 waiver is a “comfort letter” for the property manager which affirms that the CRA will not require them to withhold 25% of gross income, as the taxpayer is earning business income from a permanent establishment in Canada and is required to file the appropriate income tax return to report that income and pay any required tax by the due dates.

Contact your property manager or the Whistler BDO office for assistance to complete these forms.

When are the income tax returns due?

If an NR6 form has been filed, your Section 216 return must be mailed to the CRA by June 30. **A late return will not normally be accepted and your final tax liability will be 25% of the gross income from property for that year. The CRA can collect this tax plus interest, in a later year when you sell the property.** If an NR6 form was not filed, you have the option to file the Section 216 return within two years from the end of the taxation year to obtain any refund of withholding tax paid. If you do not file within two years, the CRA will normally keep the withholding tax paid.

If you earn business income to which a Regulation 805 waiver form applies, your income tax return must be mailed to the CRA by June 15th, whether or not the 805 waiver has been completed. Returns that are filed late will be subject to penalties and interest and may result in the CRA denying the approval of future 805 waiver applications.

Goods and Services Tax (GST)

The GST is a 5% tax that is charged on most goods and services, including short term rental accommodation, and operates much like other value added taxes (VAT) in other countries. If you are earning short term (nightly) income from your property, you may be eligible to register for GST purposes and claim a refund or defer payment of GST on expenditures related to your rental property. This includes any GST payable on the purchase of your property. If you intend to enjoy your property for personal use, whether occasionally or frequently, your eligibility may be reduced or eliminated.

Contact the Whistler BDO office for more information about registering for GST and if it will benefit you.

Your GST returns are often prepared at the same time as your income tax returns but generally have an earlier due date. Check your information carefully to ensure that you know when your GST return must be filed. Information required to prepare your GST return is the same as for the income tax returns and is noted on the back side of this pamphlet.