Tax Talk

SCOTT TAYLOR

CRA's new house rules take effect

Some people never learn. Take the case of Tania Kovaluk, a tax-dodging dentist from Ottawa. In November 2012 Kovaluk pleaded guilty to multiple counts of evading taxes on $2.6 million in income – some $721,000 worth – between 2003 and 2007.

In addition to hiding money in offshore assets, she was a promoter of the Paradigm Education Group, which ran seminars on how to "opt out" of your tax obligation. She even got nine employees at her dental clinic to take part in this scheme.

Originally Kovaluk was sentenced to two years, five months in jail and fined $887,328. But she made no effort to pay the fine after she was released from jail and last October was handed an additional five-year prison sentence.

No one likes taxes but you can't just not pay what you owe. So educate yourself and get professional help if you need it. Tax rules change often, and this year is no different.

New rules on real estate

For instance, in the past, all real estate sales other than your principal residence were to be reported on your tax return. Now, starting with your 2016 filing, you must report all sales, period.

It's still the case that if a property has continuously been your principal residence for every year that you owned it, the gain from its sale is not taxable. However, if you rented out your principal residence or it was used by you in a business then you may owe tax for the increased value that happened during these time periods.

CRA has always had a "deemed disposition" policy for these situations when you are considered to have personally disposed of property even though you did not actually sell it (i e. you changed all or part of your principal residence to a rental or you change your rental to a principal residence).

This change-in-use policy states you are considered to have sold the property at its fair market value and to have immediately reacquired the property for the same amount. You have to report the "sale" of your principal residence and any resulting capital gain or loss in the year the change of use occurs.

Why the change?

CRA's literature states they want to promote compliance and administration of our tax system.

In fact, the real estate industry has gained a lot of attention in the media with increasing home prices and stories of foreign investors driving up prices as well. Here's what CRA is most concerned about:

Questionable source of funds: So, you reported $6,000 of income on your tax return the past few years and now you just sold a million dollar home. How'd you manage to cash-flow that home all these years?

Property flipping: We've all heard stories about amateur and professional renovators who buy a house, fix it up, live in it for a short time, and sell

Tax rules change often, and this year is no different.

it. They claim the principal-residence exemption over and over even though gains on sales should be claimed as business income and therefore fully taxable.

Unreported capital gains from property sales: When you sell your cottage or that piece of land Dad willed you, you're supposed to report it and pay income tax on any capital gains. If CRA is going to start checking out land registry offices (this information is public, by the way) then I'm sure they will be writing lots of letters to folks looking for further information on real estate transactions.

The penalties for "forgetting" to meet this new reporting requirement can be hefty: the lesser of $8,000 or $100 for each month until it is corrected. As you start thinking about filing your 2016 tax return, the new real estate policy is just one more reason to talk to a professional – and I don't mean your dentist – about how to report everything properly.

Scott Taylor is vice-president of TFS Group, providing accounting, bookkeeping, tax return preparation, and other business services for owner-operators. Learn more at www.tfsgroup.com or call 800-461-5970.