CIBC

Home sweet home: Tax tips for homeowners

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Whether you're looking to buy your first home, you're already a homeowner or you sold your home during the year, here are some tax tips to keep in mind.

1. Tax filing tips

Home Buyers' Amount

If you purchased a new home this year, don't forget to claim the federal Home Buyers' Amount. This non-refundable tax credit is worth $1,500 (15% of a $10,000 base amount) to first-time home buyers, who acquired a home during the year.

For the purposes of this credit, you are considered a first-time home buyer if you did not live in another home that was owned by you or your spouse or common-law partner in the calendar year of purchase, or in any of the 4 previous calendar years.

The credit is also available for the purchase of a home either by, or on behalf of, an individual eligible for the disability tax credit if the home enables the disabled individual to live "in a more accessible dwelling or in an environment better suited to the personal needs and care of that person."

Any unused Home Buyers' Amount can be claimed by your spouse or partner. Note, however, that even if each spouse or partner uses their own funds to jointly purchase a new home, the Home Buyers' Amount is still limited to one credit of $1,500 (as opposed to $1,500 for each spouse or partner).

Home Buyers' Plan repayments

The federal Home Buyers' Plan (HBP) currently allows a first-time home buyer to withdraw up to $60,000 from their RRSP to purchase, or construct, a new home without having to pay tax on that withdrawal. Individuals may also participate in the HBP even if they are not a first-time home buyer, provided that they were living separate and apart from their spouse or partner as a result of a breakdown in their marriage or partnership for at least 90 days.

Under the HBP, any funds withdrawn must be used to acquire a home before October 1st of the following year. You must generally repay the amount you borrowed in equal annual instalments over 15 years and repayments can be made up to 60 days after the end of the year. Under a temporary 2024 federal budget measure, for HBP withdrawals taken from January 1, 2022 through December 31, 2025, the first instalment will now be due the fifth calendar year following the year in which you withdrew the money. For all other HBP withdrawals, the first instalment is due in the second calendar year after the withdrawal.

If you participated in the HBP previously and are required to make a repayment this year, be sure to designate a portion of your RRSP contributions as a HBP repayment on Schedule 7 of your personal tax return, under "Part B – Repayments under the HBP and the LLP"

Provincial property tax credits

If you're a resident of Ontario or Manitoba, you may get some additional tax relief on your property taxes. Ontario (Form ON-BEN) and Manitoba (Form MB 479) provide a tax credit for property tax or rent paid during the year.

Goods and Services Tax / Harmonized Sales Tax (GST/HST) new housing rebate

If you purchased a new or substantially renovated home from a builder, or constructed or substantially renovated your own home, you may be able to recover some of the federal GST or HST paid. The home must have been purchased or built for use as your primary place of residence, or the primary place of residence of certain family members. The total purchase price must not exceed $450,000. Form RC7190-WS should be completed to calculate the rebate and Form GST190 must be filed to claim the rebate. In some circumstances the builder may pay the amount of the rebate to you.

Ontario and Nova Scotia also offer provincial new housing rebate for some of the provincial HST paid and these rebates are not limited to homes with purchase prices up to $450,000.

Home accessibility tax credit

If you renovated a home to allow either a senior or a person living with a disability to gain access to, or to be mobile or functional within, a home, or to reduce the risk of harm to that person in such circumstances, you may be eligible for a 15% tax credit. Up to $20,000 of eligible expenses can qualify for the credit. Note that even if the renovation expense qualifies for the medical expense tax credit, you can also claim the home accessibility tax credit.

Multigenerational Home Renovation Tax Credit (MHRTC)

The MHRTC is a refundable credit was introduced to assist Canadians with the cost of renovating a home to create a secondary unit so that a family member who is over 65 years of age (or 18 if they qualify for the disability tax credit) can live with you. The refundable credit is worth 15% of the value of your qualifying expenditures, up to a maximum spend of $50,000. So, if you spend $50,000 (or more) on the renovation, your credit is worth $7,500.

2. Make your mortgage interest tax-deductible

If you've got a mortgage and also have non-registered investments, you may wish to consider making your interest expense tax-deductible, by paying off non-deductible debt (the mortgage) with your non-registered funds and then borrowing back for investment purposes.

This strategy has often be referred to as the “Singleton Shuffle,” because it was named after Vancouver lawyer John Singleton’s 2001 Supreme Court victory, which upheld the notion that you can rearrange your financial affairs in a tax-efficient manner so as to make your interest on investment loans tax-deductible.

This technique has been employed by many Canadians who own non-registered investments and are advised to liquidate these investments and use the proceeds to pay off their mortgage.

The investor would then obtain new financing and use the new loan to purchase new income-generating investments, thus making the interest on the loan tax-deductible.

Before doing so, be sure to speak with an advisor to discuss any tax consequences of selling your non-registered investments, along with any prepayment fees for paying off your mortgage early.

3. Claiming the principal residence exemption

Finally, if you sell your home, the good news is that the gain is likely tax-free, provided you didn’t also own a second home for which you are claiming the principal residence exemption (PRE).

The PRE, if available, can shelter the gain on a principal residence from capital gains tax. A principal residence can include either your main home, or a vacation property, even if it’s not where you primarily live during the year, as long as you “ordinarily inhabit” it at some point during the year.

A cottage is considered to be ordinarily inhabited by someone, even if that person lives in that property for only a short period of time during the year (for example, during the summer months), as long as the main reason for owning the property is not for the purpose of earning income. Even if you rent it out occasionally, the Canada Revenue Agency (CRA) has stated that incidental rental income won’t prevent a cottage from still qualifying as a principal residence.

Before 1982, it was possible for each spouse or common-law partner to own a property and designate it as their principal residence, with the resulting capital gains tax-free upon disposition. The change in rules means that for years of ownership after 1981, a couple can only designate one property between them as their principal residence for any particular calendar year.

This becomes a challenge when a couple owns more than one principal residence and is forced to choose, upon ultimate sale of the first one, which property will be designated the principal residence for each year during the period of multi-home ownership.

As a result, if you sell a home, you need to decide to designate the property as your principal residence or not.

Generally, the decision to claim the PRE when you sell your vacation property, as opposed to “saving it” for the disposition of your other property, will depend upon a number of factors, including:

The average annual gain on each property (that is, the gain on each property divided by the number of years each was held);

The potential for future increases (or decreases) in value of the unsold property; and

The anticipated holding period of the unsold property

Non-economic factors may also come into play if you are more concerned about an immediate tax liability versus a tax liability payable later (possibly upon death) on the sale of your other property.

You must report the details of the sale of a principal residence on Schedule 3, Capital Gains of your income tax return and designate the property as the principal residence. Form T2091-(IND), “Designation of a Property as a Principal Residence by an Individual”, will also be required.

For more information on planning for the sale of a second home, see What’s up dock: Tax & estate planning for your vacation property.

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