



RULES for Non-Resident Property Owners

By Gabrielle M. Loren, CGA, CMOG

Rental Property

NR6

If you purchase property that you rent out, you have to file an NR6 form before the first month's rent is received. This form allows you or your agent to remit taxes on your net estimated rental income vs. remitting 25% of your gross rental income. The NR6 form is a joint election between yourself as the owner and your agent stating that you will file a Section 216 Canadian tax return by June 30th of the following year and pay any taxes due by April 30th of the same year. The following demonstrates this further:

OFFERING

MORE THAN

JUST

NUMBERS

	No NR6 Election	With an NR6 Election
Gross rental income	\$12,000	\$12,000
Monthly expenses	\$15,000	\$15,000
Monthly tax payment due	\$ 250	\$nil
Tax refund due	\$ 3,000	\$nil

As you can see, this is a cash flow issue more than anything so it is very important to file this form. My fee for preparing this form is \$150 per year and I will need details of your anticipated expenses in order to complete it - see detailed list below - plus the name, address and phone number of your Canadian agent.

If you have no agent, you must remit 25% of your rental income to the government by the 15th of the month following the month in which the rent was received. In other words, January you collect \$1000 in rent, then by February 15, you have to pay \$250 to CRA.

Section 216 Return

This is a special rental income return that is due to be filed by June 30th of the following year. I.e. your 2004 return is due June 30, 2005. If taxes are payable, they are due April 30th and interest accumulates on the amount due after this date.

The return calculates taxes due on your rental profit. Allowable expenses include:

- advertising
- mortgage interest (not payments)
- property taxes
- repairs and maintenance
- utilities
- office supplies (receipt books etc)
- travel (for you to do or supervise repairs at the unit but these are limited to airfare and rental car - no hotel)
- insurance
- management fees
- professional fees (except for the sale and purchase itself)

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* Denotes Professional Corporation

- strata fees and levies

Other allowable deductions but not at one time are costs associated with appliances, renovations (vs. repairs) and the initial cost.

In order to complete this return, I will need the totals for the above plus the following information:

- statement of adjustments on the initial purchase of the property
- legal name of owners
- their dates of birth
- their non-resident address
- a contact phone number

My fee for the preparation of this form is \$250 per person per year plus GST.

A good point to remember is that you may own the property for several year and operate at a loss but if you have a profit, those prior year losses do not offset this profit. In other words, each year's return is dealt with totally separate from other years.

All Properties

Clearance Certificate

The minute you get an accepted offer on your property, you should be filing for this certificate or your lawyer/notary will be required to withhold and remit 25% of your gross proceeds to the government! The clearance certificate is applied for to ensure that the Canadian government gets their tax on any profits you made on the property. The tax is equal to 25% of the amount calculated when you take the difference between the sale price and the cost (cost being initial cost plus legal fees and property transfer taxes plus any upgrades, additions or improvements made). This amount will be deducted from your proceeds and remitted by your lawyer to the Canadian government. In order to get some or all of these withholding back, you have to file a Non-Resident tax return for the year of sale. If your sale is in 2006, the earliest you can file a 2006 return is around mid January 2007.

Our fee for preparing this clearance certificate is \$300 per person plus GST and we will require the following documents:

- Section 216 returns filed and assessment notices for all years the property was owned
- Statement of adjustments from the purchase of the property
- Accepted offer for sale
- Name, address and phone # of purchaser or the purchaser's agent
- If the property was not rented, a letter from the owner advising what the property was used for (i.e. summer cottage used personally)

Non-Resident Return

This return is filed in the year you dispose of the property and is a separate return from your Section 216 return. I.e., you could be filing two returns for the same year. This return is filed in the year subsequent to the sale and is due April 30th. On this return, we include all the information used in the clearance certificate but also claim the legal fees on the sale and the real estate commission paid so you will get a refund of some of the taxes paid once this return is filed. For this return I need the vendor's statement of adjustment plus the order to pay. For this return our fee is \$250 plus GST per person.

There are no joint returns in Canada so each individual has to file their own separate return.

If you are uncertain of any of these rules, make sure your client contacts a professional tax advisor who is familiar with non-resident rules.

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