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## PRINCIPAL RESIDENCE EXEMPTION:

# Failure to Report Can Cost You

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### Abstract

*Starting January 1, 2016, if you sell your principal residence you must report the sale on your income tax return. Sellers are only exempt from payment of capital gains tax by claiming the principal residence exemption on your tax return. If sellers do not report the sale correctly on their income tax return, they may not be able to claim the principal residence exemption.*

### Full Article

Starting January 1, 2016, if you sell your principal residence you must report the sale on your income tax return. Sellers are only exempt from payment of capital gains tax by claiming the principal residence exemption on your tax return. If sellers do not report the sale correctly on their income tax return, they may not be able to claim the principal residence exemption.

As a result of these rule changes, the Canada Revenue Agency can now very easily audit questionable transactions to verify whether an individual is really entitled to receive the principal residence exemption. The penalty for making a false statement or omission such as falsely attempting to claim the principal residence exemption in an income tax return can be extremely high. The penalty is the greater of (a) \$100.00, and (b) 50% of the understated tax and/or the overstated tax credits related to the false statement or omission. Targets of this proposal are those who sell properties that aren't their principal residence, such as owners who buy properties for investment purposes or to earn income, such as house flippers.

What happens when someone sells their property, wanted to claim the principal residence exemption, but forgot to report the sale on their income tax return for the year of disposition? The CRA's website states that if a seller forgets to make a designation of principal residence in their income tax return for the year of sale, it is very important to ask the CRA to amend the seller's income tax and benefit return for that year. The CRA will be able to accept a late designation but a penalty may apply, the penalty being the lesser of 1. \$8,000; or 2. \$100 for each



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complete month from the original due date to the date the request was made in a form satisfactory to the CRA. If the disposition is not reported the CRA will not face the normal three-year limitation period for auditing and perhaps reassessing the disposition.