Canada Revenue Agency | Agence du revenu du Canada

Rental Income

2024

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Canada

Find out if this guide is for you

Use this guide if you had rental income from real estate or other property, including residential property that is a short-term rental. The information in this guide relates mainly to renting real estate, but some of the information also applies to other types of rental property.

This guide will help you determine your gross rental income, the expenses you can deduct and your net rental income or loss for the year. It will also help you fill in Form T776, Statement of Real Estate Rentals.

To determine if your income is from property or from a business, see Chapter 1.

To find out if you are a member of a partnership or a co-owner, see "If you are a co-owner or a member of a partnership" on page 11.

If you are looking to report income or expenses from accommodation sharing, search accommodation sharing at **canada.ca**.

We have defined some of the terms used in this guide in "Definitions" on page 6. You may want to read them before you start.

Throughout this guide, we refer to other guides, forms, interpretation bulletins, information circulars and income tax folios.

What's new for 2024

New items in this guide are outlined in colour. These include changes introduced in the 2024 federal budget that had not yet become law at the time this guide was published.

Automobile deduction limits

On December 18, 2023, the Government of Canada announced the automobile deduction limits for 2024.

For Class 10.1 passenger vehicles (new and used) acquired on or after January 1, 2024, the prescribed amount increases from $36,000 to $37,000, before tax.

The maximum deductible automobile leasing costs increase from $950 to $1,050 per month, before tax, for new leases entered into after 2023.

The maximum allowable interest deduction increases from $300 to $350 per month for new automobile loans entered into after 2023.

Short-term rentals

As of January 1, 2024, individuals are no longer able to deduct expenses related to non-compliant short-term rentals. This change applies to all expenses, including interest expenses incurred after 2023 to earn income from operating non-compliant short-term rentals.

For more information, see "Non-compliant short-term rental" on page 8 and "Short-term rental portion of total expenses" on page 17.

Replacement property acquired during the COVID-19 pandemic

In some cases, you can defer reporting the capital gain or recapture of capital cost allowance resulting from the disposition of depreciable property. To do so, you must acquire a replacement property within the specified time limits and use it for a similar purpose.

Do not count the period beginning on March 15, 2020, and ending on March 12, 2022, in the calculation of the specified time limits.

For more information, see "Replacement property" on page 41.

Capital gains inclusion rate

On January 31, 2025 the Department of Finance announced a change to the effective date for the capital gains inclusion rate increase from June 25, 2024 to January 1, 2026. This means that the inclusion rate for calendar year 2024 remains at 50%.

For more information on the inclusion rate and the change in use election, see Guide T4037, Capital Gains. For more information on how to calculate your capital costs or deemed proceeds of dispositions, see "Special situations" on page 38.

The term income tax return used in this guide has the same meaning as income tax and benefit return.

The CRA's publications and personalized correspondence are available in braille, large print, e-text and MP3. For more information, go to **canada.ca/cra-multiple-formats** or call **1-800-959-8281**.

If you are outside Canada and the United States, call **613-940-8495**. The CRA only accepts collect calls made through a telephone operator. After your call is accepted by an automated response, you may hear a beep and notice a normal connection delay. This service operates in Eastern Standard Time and is open Monday to Friday from 8 am to 8 pm and Saturday from 9 am to 5 pm.

This guide uses plain language to explain the most common tax situations. It is provided for information only and does not replace the law.

La version française de ce guide est intitulée Revenus de location.

Unless otherwise stated, all legislative references are to the Income Tax Act or, where appropriate, the Income Tax Regulations.

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Definitions

Accelerated investment incentive property (AIIP) – property that is eligible for an enhanced first-year allowance that is subject to the capital cost allowance (CCA) rules. The property may be eligible if it is acquired after November 20, 2018, and becomes available for use before 2028. For more information on AIIP, go to **canada.ca/taxes-accelerated-investment-income**.

Arm's length – refers to a relationship or a transaction between unrelated persons who act in their own separate interests. An arm's length transaction is generally a transaction that reflects ordinary commercial dealings between unrelated parties acting in their own separate interests.

For more information, see Income Tax Folio S1-F5-C1, Related Persons and Dealing at Arm's Length.

Related persons are not considered to deal with each other at arm's length. Related persons include individuals connected by blood relationship, marriage, common-law partnership or adoption (legal or in fact). A corporation and another person or two corporations may also be related persons.

For more information, see Income Tax Folio S1-F5-C1, Related Persons and Dealing at Arm's Length.

Unrelated persons may not be dealing with each other at arm's length at a particular time. Each case will depend upon its own facts. The following criteria will generally be used to determine if the parties to a transaction are **not** dealing at arm's length:

- whether there is a common mind that directs the bargaining for the parties to a transaction
- whether the parties to a transaction act in concert without separate interests; ("acting in concert" means, for example, that parties act with considerable interdependence on a transaction of common interest)
- whether there is de facto control of one party by the other because of, for example, advantage, authority or influence

For more information, see Income Tax Folio S1-F5-C1, Related Persons and Dealing at Arm's Length.

Available for use – you can generally claim capital cost allowance on a rental property only once it has become available for use.

A **rental property, other than a building,** usually becomes available for use on the earliest of:

- the date you first use it to earn income
- the second year after the year you acquired the rental property
- the time just before you dispose of the property

A **rental property that is a building**, or part of a building, usually becomes available for use on the earliest of:

- the date when a fully constructed building is purchased or construction of the building is completed
- the date that you rented out 90% or more of the building
- the second year after the year you acquired the building
- the time just before you dispose of the building

When determining the available-for-use date, you should consider a renovation, an alteration or an addition to a building as a separate building.

You may be able to claim CCA on a building that is under construction, renovation or alteration before it is **available for use**. You can deduct CCA that you have available on such a building when you have net rental income from it. The CCA that you can deduct is restricted to the amount of net rental income you have after you deduct any soft costs for constructing, renovating or altering the building. For an explanation of soft costs, see "Construction soft costs" on page 16.

Capital cost – generally means the taxpayer's full cost of acquiring the property. The capital cost of a property is usually the total of the following:

- the purchase price (not including the cost of land, which is not depreciable)
- the part of your legal, accounting, engineering, installation and other fees that relate to buying or constructing the property (not including the part that applies to land)
- the cost of any additions or improvements you made to the property after you acquired it, if you did not claim these costs as a current expense (such as modifications to accommodate persons with disabilities)
- for a building, soft costs (such as interest, legal and accounting fees, and property taxes) related to the period you are constructing, renovating or altering the building, if these expenses have not been deducted as current expenses

For more information on current expenses, see "Current or capital expenses" on page 15.

Legal and accounting fees for buying a rental property are allocated between the cost of the land and the capital cost of the building. If land is acquired for rental purposes or for constructing a rental property, the legal and accounting fees apply to the land.

Capital cost allowance (CCA) – you may have acquired depreciable property like a building, furniture or equipment to use in your rental activity. You cannot deduct the initial cost of these properties in the calculation of the net income of the rental activities for the year. However, since these properties wear out or become obsolete over time, you can deduct the cost over a period of several years. This deduction is called CCA.

Capital property – generally any property, including depreciable property, you buy for investment purposes or to earn business income. Common types of capital property include principal residences, cottages, stocks, bonds, land, buildings and equipment used in a business or rental operation.

Common-law partner – this applies to a person who is **not your spouse** with whom you are living in a conjugal relationship, and to whom at least **one** of the following situations applies. They:

- have been living with you in a conjugal relationship, and this current relationship has lasted at least 12 continuous months

  Note
  The term "12 continuous months" includes any period that you were separated for less than 90 days because of a breakdown in the relationship.

- are the parent of your child by birth or adoption
- have custody and control of your child (or had custody and control immediately before the child turned 19 years of age) and your child is wholly dependent on that person for support

Depreciable property – the property on which you can claim CCA. It is usually capital property from a business or property. The capital cost can be written off as CCA over a number of years. You usually group depreciable properties into classes. Diggers, drills and tools that cost $500 or more belong in Class 8. You have to base your CCA claim on the rate assigned to each class of property.

Designated immediate expensing property (DIEP) – property that:

- is immediate expensing property (see definition below) of the eligible person or partnership (EPOP)
- is designated on a prescribed form the EPOP files with the minister for the tax year on or before the day that is 12 months after the EPOP's filing due date for the tax year to which the designation relates
- became available for use by the EPOP in the current year

Eligible person or partnership (EPOP) – one of the following:

- a Canadian-controlled private corporation (CCPC) throughout the year
- an individual (other than a trust) resident in Canada throughout the year
- a Canadian partnership of which all the members were either CCPCs or individuals (other than trusts) and all the members were resident in Canada throughout the fiscal period

Fair market value (FMV) – generally, the highest dollar value you can get for your property in an open and unrestricted market between an informed and willing buyer and an informed and willing seller who are dealing at arm's length with each other.

Immediate expensing property – property, other than property included in CCA Classes 1 to 6, 14.1, 17, 47, 49 and 51, that:

- is acquired by an EPOP who is an individual or a Canadian partnership after December 31, 2021
- becomes available for use before:
  - 2025, if the EPOP is an individual or a Canadian partnership of which all the members are individuals throughout the year
  - 2024 in any other case

- meets either of the following conditions:
  - it has never been used for any purpose and no person or partnership has claimed CCA (or terminal loss) for the property before the property was acquired by the EPOP
  - it has not been transferred to the EPOP on a tax deferred "rollover" basis and it was not previously owned or acquired by the EPOP or a non-arm's length person or partnership

Multiple-unit residential building (MURB) – a rental property in either Class 31 or 32 that has at least two self-contained residential units.

Motor vehicle – an automotive vehicle designed or adapted for use on highways and streets. A motor vehicle does not include a trolley bus or a vehicle designed or adapted to be operated only on rails.

Non-arm's length – generally refers to a relationship or transaction between persons who are related to each other.

However, a non-arm's length relationship might also exist between unrelated individuals, partnerships or corporations, depending on the circumstances. For more information, see the definition of "Arm's length."

Non-compliant amount – means, for a tax year, the amount determined by the following formula:

A × B ÷ C, where:

A is the total of all amounts that would normally be deductible in the calculation of income related to the use of a residential property as a short-term rental in the tax year

B is the number of days in the tax year that the residential property was a non-compliant short-term rental

C is the number of days in the tax year that the residential property was a short-term rental

Non-compliant short-term rental – refers to a short-term rental in a province or municipality that either:

- does not permit operating the short-term rental at that location
- requires registration, a licence, or a permit to operate the short-term rental, and the short-term rental does not comply with all the proper registration, licensing, and permit requirements

Passenger vehicle – a motor vehicle that is owned by the taxpayer (other than a zero-emission vehicle) or that is leased, and is designed or adapted primarily to carry people on highways and streets. It seats a driver and no more than eight passengers. Most cars, station wagons, vans and some pick-up trucks are passenger vehicles.

Passenger vehicles and zero-emission passenger vehicles are subject to limits on the amount of CCA, interest and leasing costs that may be deducted. They do **not** include:

- an ambulance
- a clearly marked police or fire emergency response vehicle
- a motor vehicle you bought to use more than 50% as a taxi, a bus used in the business of transporting passengers, or a hearse used in a funeral business
- a motor vehicle you bought to sell, rent or lease in a motor vehicle sales, rental or leasing business
- a motor vehicle (except a hearse) you bought to use in a funeral business to transport passengers
- a van, pick-up truck or similar vehicle that seats no more than the driver and two passengers and that, in the tax year you bought or leased it, was used more than 50% to transport goods and equipment to earn income
- a van, pick-up truck or similar vehicle that, in the tax year you bought or leased it, was used 90% or more to transport goods, equipment or passengers to earn income
- a pick-up truck that, in the tax year you bought or leased it, was used more than 50% to transport goods, equipment or passengers to earn or produce income at a remote work location or at a special work site that is at least 30 kilometres from the nearest community with a population of at least 40,000
- a clearly marked emergency medical service vehicle used to carry paramedics and their emergency medical equipment

Personal-use property – refers to items that you own primarily for the personal use or enjoyment of your family and yourself. It includes all personal and household items, such as furniture, automobiles, boats, a cottage, and other similar properties.

Proceeds of disposition – the amounts you receive, or that we consider you to have received, when you dispose of your property (usually the selling price of the property). Proceeds of disposition is also defined to include, amongst other things, compensation received for property that has been destroyed, expropriated, damaged or stolen.

Rental income – income you earn from renting a property that you own or have use of.

Rental operation – services you provide within your rental property to your tenants such as heat, lighting, laundry, cleaning or security.

Rental property – generally, a building or certain leasehold interests owned by a taxpayer(s) or a partnership that is mainly used to generate gross revenue from rent.

Residential property – refers to all or any part of a house, apartment, condominium unit, cottage, mobile home, trailer, houseboat, or other property located in Canada that can be used for residential purposes under applicable law.

Short-term rental – a residential property that is rented or offered for rent for a period of less than 90 consecutive days.

Spouse – a person to whom you are legally married.

Undepreciated capital cost (UCC) – generally, the amount left after you deduct CCA from the capital cost of a depreciable property. Each year, the CCA you claim reduces the UCC of the property.

Zero-emission passenger vehicle (ZEPV) – an automobile that is owned by the taxpayer and is included in Class 54 (but would otherwise be included in Class 10 or 10.1). The rules that apply to the definition of passenger vehicles apply to ZEPVs. A ZEPV does not include a leased passenger vehicle, but other vehicles that would otherwise qualify as a ZEPV if owned by the taxpayer are subject to the same leasing deduction restrictions as passenger vehicles.

Zero-emission vehicle (ZEV) – is a motor vehicle that is owned by the taxpayer where all of the following conditions are met:

- is a plug-in hybrid with a battery capacity of at least 7kWh or is either fully:
  - electric
  - powered by hydrogen
- is acquired, and becomes available for use, after March 18, 2019, and before 2028
- has not been used or acquired for use for any purpose before it was acquired by the taxpayer
- is a vehicle in respect of which an amount has not been deducted as CCA and a terminal loss has not been claimed by another person or partnership

  Note
  If the property was acquired after March 1, 2020, it may have been used, but a vehicle that was subject to a prior CCA or terminal loss claim cannot have been acquired by the taxpayer on a tax-deferred "rollover" basis nor previously owned or acquired by the taxpayer or a non-arm's length person or partnership.
- is a vehicle for which:
  - an election has not been made to forgo the Class 54 or 55 treatment
  - assistance has not been provided by the Government of Canada under the new incentive announced on March 19, 2019

Chapter 1 – General information

This chapter explains the general information you need to have before you fill in Form T776, Statement of Real Estate Rentals.

Rental income is income you earn from renting property that you own or have use of. You can own the property by yourself or with someone else. Rental income includes income from renting:

- houses
- apartments
- rooms
- space in an office building
- other real or movable property

Rental income can be either income from property or business. Income from rental operations is usually income from property. Use this guide only if you have rental income from property.

Find out if you have rental income or business income

To determine whether your rental income is from property or business, consider the number and types of services you provide for your tenants.

In most cases, you are earning an income from your property if you rent space and provide basic services only. Basic services include heat, light, parking and laundry facilities. If you provide additional services to tenants, such as cleaning, security and meals, you may be carrying on a business. The more services you provide, the greater the chance that your rental operation is a business.

For more information about how to determine if your rental income comes from property or a business, see Interpretation Bulletin IT-434, Rental of Real Property by Individual, and its Special Release.

If your rental operation is a business, do not use this guide. Instead, see Guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income.

Goods and services tax/harmonized sales tax (GST/HST) new residential rental property rebate

Section 256.2 of the Excise Tax Act allows landlords who buy or build new residential housing, substantially renovate existing housing, build an addition to multiple-unit housing, or convert a commercial property into housing, to get a GST/HST new residential rental property rebate.

To qualify for this rebate, landlords must rent out housing for long-term use by individuals as their **primary** place of residence. The rebate may also be available to persons who provide land leases for residential use. This can include the lease of sites in a residential trailer park.

For more information, see Guide RC4231, GST/HST New Residential Rental Property Rebate.

If you are applying for a new residential rental property rebate, use Form GST524, GST/HST New Residential Rental Property Rebate Application. If you are claiming a rebate for multiple unit housing, such as an apartment building or a triplex (excluding condominium units and a duplex), you also need to fill in Form GST525, Supplement to the New Residential Rental Property Rebate Application – Co-op and Multiple Units.

GST/HST rebate for partners

To determine if you are a partner, see "If you are a co-owner or a member of a partnership" on page 11.

If you are an individual who is in a partnership, you may be able to get a rebate for the GST/HST you paid on certain expenses. The rebate is based on the GST/HST you paid on expenses you deducted from your share of the partnership income on your income tax return. However, special rules apply if your partnership paid you an allowance for those expenses.

As an individual who is in a partnership, you may qualify for the GST/HST partner rebate if you meet the following conditions:

- the partnership is a GST/HST registrant
- you personally paid GST/HST on expenses that:
  - you did not incur on behalf of the partnership
  - you deducted from your share of the partnership income on your income tax return

However, special rules apply if the partnership reimbursed you these costs.

Examples of expenses subject to the GST/HST are vehicle costs and certain business-use-of-home expenses. The rebate may also apply to the GST/HST you paid on motor vehicles, musical instruments and aircraft, for which you deducted capital cost allowance (CCA).

The eligible part of the CCA is the part that you deduct on your tax return in the tax year that relates specifically to a motor vehicle, musical instrument or aircraft on which you paid GST/HST. It would also be eligible for the rebate, to the extent that the partnership used the property to make taxable supplies.

You can also get a GST/HST rebate calculated on the CCA you claimed on certain types of property. For example, you can generally claim the rebate based on the CCA you deducted for a vehicle you bought to earn partnership income if you paid GST/HST when you bought it.

If you deduct CCA on more than one property of the same class, separate the part of the CCA of the property that qualifies for the rebate from the CCA on the other property. If any part of the rebate relates to the CCA deduction for a motor vehicle, a musical instrument or an aircraft, you have to reduce the undepreciated capital cost (UCC) of that property by the amount that is part of the rebate.

Fill in Form GST370, Employee and Partner GST/HST Rebate Application, to claim your GST/HST rebate for partners. If you receive a rebate, you must include the amount in your income for the tax year in which you receive it.

For example, if in 2024 you receive a GST/HST rebate for the 2023 tax year, you have to include the amount of the rebate on your income tax return for 2024:

- Report, as an "Expense" on line 9974 of Form T776, the GST/HST rebate amount for partners that pertains to eligible expenses other than the CCA
- In column 2 of "Area A – Calculation of capital cost allowance (CCA) claim," reduce the UCC for the beginning of 2024 by the rebate part that relates to the eligible CCA

For more information about the GST/HST rebate, go to our web page "GST/HST rebate for employees and partners."

Keeping records

Keep detailed records of all the rental income you earn and the expenses you incur. You have to support your purchases and operating expenses with:

- invoices
- receipts
- contracts
- other supporting documents

Do not send your records with your income tax return. Keep them in case we ask to see them. We may not allow all or part of your expenses if you do not have receipts or other documents to support them.

For more information on operating expenses, see "Chapter 3 – Expenses" on page 14.

Generally, you must keep your records for six years from the end of the tax year to which they relate. For more information about keeping records, go to **canada.ca/taxes-records**.

Chapter 2 – Calculating your rental income or loss

If you received income from renting real estate or other real property, you have to file a statement of income and expenses.

Even though we accept other types of financial statements, we encourage you to use Form T776.

Form T776 includes areas for you to enter your gross rents, your rental expenses and any capital cost allowance (CCA). To calculate your rental income or loss, fill in the areas of the form that apply to you.

This chapter explains how to calculate your rental income or loss, as well as how to fill in the "Income" and "Expenses" parts of the form.

Rental losses are not allowed if your rental operation is a cost-sharing arrangement rather than an operation to make a profit.

Filling out Form T776, Statement of Real Estate Rentals

If you are a **sole proprietor**, fill in all the parts and lines on the form that apply to you.

You only have to fill in this form if you have a rental operation and you are reporting a rental income or loss.

Part 1 – Identification

Fill in this part to identify yourself and your real estate rentals. The last two lines of Part 1 are for the person or firm preparing this form in case it is someone other than the owner of the rental property.

Fiscal period

If this is the first year of operation, enter the year, month and day you began your rental operation. Otherwise, enter January 1 of the current year.

All rental properties have a December 31 year-end. In the "to" field, enter the current tax year.

If you are a co-owner or a member of a partnership

Most of the time, if you own the rental property with one or more persons, we consider you to be a co-owner. For example, if you own a rental property with your spouse or common-law partner, you are a co-owner.

In some cases, if you are a co-owner, you have to determine if a partnership exists. A partnership is a relationship between two or more people carrying on a business, with or without a written agreement, to make a profit. If there is no business in common, there is no partnership. That is, co-ownership of a rental property as an investment does not make a partnership. To help you determine if you are in a partnership, see the partnership law for your province or territory. For more information, see Income Tax Folio S4-F16-C1, What is a Partnership?

A partnership that carries on a business in Canada, or a Canadian partnership with Canadian or foreign operations or investments, has to file a T5013, Partnership Information Return, for its fiscal period if either of the following occur:

- at the end of the fiscal period, the partnership has an absolute value of revenues plus an absolute value of expenses of more than $2 million, or has more than $5 million in assets
- at any time during the fiscal period:
  - the partnership is a tiered partnership (has another partnership as a partner or is itself a member of another partnership), or
  - the partnership has a corporation or a trust as a partner, or
  - the partnership invested in flow-through shares of a principal-business corporation that incurred Canadian resource expenses and renounced those expenses to the partnership, or
  - the minister of national revenue requests one in writing

If you are a member of any of these types of partnerships, you should get two copies of a T5013 slip, Statement of Partnership Income.

For more information on this return, go to **canada.ca/sole-proprietorships-partnerships** or see T4068, Guide for the Partnership Information Return (T5013 Forms).

If you determine that you are a member of a partnership and you received a T5013 slip, fill in only the following fields on Form T776:

- enter your nine-digit partnership business number
- enter your rental property ownership percentage in the "Your percentage of the partnership" box
- enter the amount from box 110 (or 107 if it is a limited partnership) of your T5013 slip on amount 10

You may need to adjust your share of the net partnership income (loss) on amount 10 if one of the following apply:

- you received a GST/HST rebate for partners (see "Line 9974 – GST/HST rebate for partners received in the year" on page 24)
- you are claiming an amount of deductible expenses you had as a partner that you did not deduct elsewhere on Form T776 (see "Line 9943 – Other expenses of the partner" on page 24)

Enter your net income (loss) on line 9946 by subtracting your expenses from the personal portion of the expenses.

If you are in a partnership and you do not receive a T5013 slip, or if you are a co-owner, fill in all of the parts in Form T776 that apply to you. Follow the special instructions in this chapter to fill in lines 8299, 9369, 9936, 9943 and 9946. Fill in "Part 2 – Details of other co-owners and partners" on the form.

Tax shelter identification number

If you have a tax shelter, enter the tax shelter identification number found on your T5013 slip on the proper line.

We consider a tax shelter to include an investment that can be reasonably expected, based on any statement, representation or promotional literature, to provide federal tax credits, or a combination of federal tax credits and losses or deductible amounts that are equal to or over a buyer's net cost in any of the first four years.

The total of the federal tax credits and losses or other deductible amounts would be equal to, or greater than, the cost of your share of the investment after deducting the prescribed benefits.

The cost of your interest in the property has to be reduced by the prescribed benefits you or a person with whom you do not deal at arm's length will receive or benefit from. Prescribed benefits include provincial or territorial tax credits, revenue guarantees, contingent liabilities, limited recourse debt and rights of exchange or conversion.

To claim deductions or losses from tax shelter investments, attach to your income tax return the T5003 slip, Statement of Tax Shelter Information, and the T5013 slip, if applicable. Also attach a completed Form T5004, Claim for Tax Shelter Loss or Deduction. Make sure your form identifies your tax shelter identification number.

> **Note**
> Tax shelter numbers are used for identification purposes only. They do not guarantee that taxpayers are entitled to receive the proposed tax benefits.

If this is the first year you are making a claim for your tax shelter, include a copy of Form T5003 with your income tax return. If the tax shelter is a partnership, include a T5013 slip with your return.

For more information on tax shelters, go to **canada.ca/en/revenue-agency/services/tax/businesses/topics/tax-shelters**.

Part 2 – Details of other co-owners and partners

Fill in this part if you are a co-owner or a member of a partnership.

Part 3 – Income

List the address of each of your rental properties and the number of units you rented, including all your short-term rentals (see "Definitions" on page 6).

You can receive rental income in the form of:

- cash or cheques
- kind (goods or commodities instead of cash)
- services

If your tenant pays you in cash or by cheque, include the total rents you earned in the year on line 8141 in the "Gross rents for all units" column. If your tenant pays you in kind or with services, report their fair market value at "Line 8230 – Other income" on Form T776. For more information about line 8230, go to page 14.

Example
Glenn is a tenant in an apartment building. He owns a truck with a plow on it. His landlord, Sonya, asked him to plow the parking lot after every snowfall. Sonya does not pay Glenn cash for his work, but she reduces his monthly rent accordingly.

Sonya reports the rent she charges Glenn on line 8141 as "Gross rents for all units," and the fair market value of Glenn's services as "Other income," on line 8230. She then claims the fair market value of Glenn's snowplowing services as an expense that relates to her rental operation.

Note
If you own short-term rentals, enter the portion of the rents you earned from these rentals in the year in the "Gross rents for short-term rentals" column and add the amounts on line 8140.

How to calculate your rental income

Report the rental income you earned in the calendar year from January 1 to December 31.

In most cases, you calculate your rental income using the **accrual method**. For this method you:

- report rental income in the fiscal period you earn it, no matter when you receive it
- deduct expenses in the fiscal period you incur them, whether or not you pay them in that period

Incur usually means you either paid or will have to pay the expense.

If you have almost no amounts receivable and no expenses outstanding at the end of the year, you can use the **cash method**.

For this method you:

- report rental income in the fiscal period you receive them
- deduct expenses in the fiscal period you pay them

If you use the cash method and receive a post-dated cheque as security for a debt, include the amount in income when the cheque is payable.

You can use the cash method only if your net rental income or loss would be almost the same if you were using the accrual method.

We use the accrual method for the examples in this guide.

Who reports the rental income or loss

The person who owns the rental property has to report the income or loss. If you are a co-owner of the rental property, your share of the rental income or loss will depend on your share of ownership.

The rental income or loss percentage you report should be the same for each year unless the percentage of your ownership in the property changes.

Note
As the owner, you are the only one who can use the related interest expense to calculate your rental income or loss, even if someone else guaranteed your loan or mortgage. For more information, see "Line 8710 – Interest and bank charges" on page 19.

For more information on reporting rental income between family members, see Interpretation Bulletin IT-510, Transfers and loans of property made after May 22, 1985 to a related minor, and Interpretation Bulletin IT-511, Interspousal and Certain Other Transfers and Loans of Property.

Line 8230 – Other income

On line 8230, enter the total income you received from other sources. Some examples of other income are:

Premiums and leases – You may receive an amount for one of the following:

- granting or extending a lease or sublease
- permitting a sublease
- cancelling a lease or sublease

Report all or part of these amounts as "Other income" on line 8230.

Sharecropping – You can earn income from renting farmland either in cash or as a share of the crop. Report any cash payments as rent in the "Gross rents for all units" column, and report the fair market value of any crop share you earn on a sharecrop basis as "Other income" on line 8230.

Line 8299 – Total gross rental income

Your gross rental income is your total "Gross rents for all units," on Form T776. Enter this amount on line 12599 of your income tax return. If you are a co-owner of the rental property or a member of a partnership that does not need to provide you with a T5013 slip, enter the gross rental income for the **entire** property on line 12599. Do not split the gross income according to your ownership share.

Uncollectible rent

You can have losses from uncollectible debts or a portion of an uncollectible debt. You can deduct this amount from your gross rental income.

To be eligible, the debt must:

- be owing to you at the end of the tax year
- have become uncollectible during the tax year
- have been included or deemed to have been included in your income for the year or a previous tax year

Proof is required to determine an uncollectible debt. This could be a notice to creditors from the trustee in bankruptcy, correspondence from the tenant, or some other assurance that the tenant was pursued without success of receiving a payment from them. Only debts that are certain of being uncollectible are to be considered bad debts.

You may have a case where you do not receive payment for rent, which is referred to as a bad debt. If, during the year, you receive any payment that you wrote off in a previous year as bad debt, you have to include the amount in your income for the current year.

Notes
If you are reporting income on a cash basis, there should be no receivables and no claim for uncollectible rents.

If you are not dealing at arm's length with the tenant, the factors used to establish the uncollectible amount would need to be verified.

For more information, see Interpretation Bulletin IT-442, Bad Debts and Reserves for Doubtful Debts.

Chapter 3 – Expenses

You can deduct any reasonable expenses you incur to earn rental income. The two basic types of expenses are:

- current expenses
- capital expenses

Current expenses are recurring expenses that provide a short-term benefit. For example, a current expense is the cost of repairs you make to keep a rental property in the same condition as it was when you acquired it. You can deduct current expenses from your gross rental income in the year you incur them.

As for capital expenses, they provide a benefit that usually lasts for several years. For example, costs to buy or improve your property are capital expenses. Generally, you cannot deduct the full amount of these expenses in the year you incur them. Instead, you can deduct their cost over a period of several years as capital cost allowance (CCA). For more information on CCA, see Chapter 4.

Capital expenses can include:

- the purchase price of rental property
- legal fees and other costs connected with buying the property
- the cost of furniture and equipment you are renting with the property

Current or capital expenses

Renovations and expenses that extend the useful life of your property or improve it beyond its original condition are usually capital expenses. However, an increase in a property's market value because of an expense is not a major factor in deciding whether the expense is capital or current. To decide whether an amount is a current expense or a capital expense, consider your answers to the questions in the following chart.

Criteria	Capital expenses (see "Capital expenses – Special situations" on page 16)	Current expenses
Does the expense provide a lasting benefit?	A capital expense generally gives a lasting benefit or advantage. For example, the cost of putting vinyl siding on the exterior walls of a wooden house is a capital expense.	A current expense is one that usually recurs after a short period. For example, the cost of painting the exterior of a wooden house is a current expense.
Does the expense maintain or improve the property?	The cost of a repair that improves a property beyond its original condition is probably a capital expense. If you replace wooden steps with concrete steps, the cost is a capital expense.	An expense that simply restores a property to its original condition is usually a current expense. For example, the cost of repairing wooden steps is a current expense.
Is the expense for a part of a property or for a separate asset?	The cost of replacing a separate asset within a property is a capital expense. For example, the cost of buying a refrigerator to use in your rental operation is a capital expense. This is the case because a refrigerator is a separate asset and is not a part of the building.	The cost of repairing a property by replacing one of its parts is usually a current expense. For instance, electrical wiring is part of a building. Therefore, an amount you spend to rewire is usually a current expense, as long as the rewiring does not improve the property beyond its original condition.
What is the value of the expense? (Use this test only if you cannot determine whether an expense is capital or current by considering the three previous tests.)	Compare the cost of the expense to the value of the property. Generally, if the cost is of considerable value in relation to the property, it is a capital expense.	This test is not a determining factor by itself. You might spend a large amount of money for maintenance and repairs to your property all at once. If this cost was for ordinary maintenance that was not done when it was necessary, it is a maintenance expense, and you deduct it as a current expense.
Is the expense for repairs made to used property you acquired to put it in a suitable condition for use?	The cost of repairing used property you acquired to put it in a suitable condition for use in your business is considered a capital expense even though in other circumstances it would be treated as a current operating expense.	Where the repairs were for ordinary maintenance of a property you already had in your business, the expense is usually current.
Is the expense for repairs made to an asset in order to sell it?	The cost of repairs made in anticipation of selling a property, or as a condition of sale, is regarded as a capital expense.	Where the repairs would have been made anyway, but a sale was negotiated during the course of the repairs or after their completion, the expense is considered current.

You were asking?

Q. My brother and I own an old apartment building that we have been renting for several years. In the current tax year, we had the roof and outside walls repaired. The repairs to the roof involved waterproofing and re-shingling several patches that had developed leaks. The building is made of brick, and the outside walls were redone using the original bricks. Can we deduct these expenses in calculating our rental income for the year?

A. Yes. The repairs to the building simply restored it to its original condition. As a result, they are current expenses.

If you need more information on the difference between current expenses and capital expenses, see Income Tax Folio S3-F4-C1, General Discussion of Capital Cost Allowance.

Capital expenses – Special situations

Modifications to rental properties to accommodate persons with disabilities

You can deduct expenses you incur for eligible disability-related modifications made to a building in the year you paid them. You can do this instead of adding them to the capital cost of your building. Eligible disability-related modifications include changes you make to accommodate wheelchairs, such as:

- installing hand-activated power door openers
- installing interior and exterior ramps
- modifying a bathroom, elevator or doorway

You can also deduct expenses you pay to install or get the following disability-related devices and equipment:

- elevator car-position indicators (such as braille panels and audio indicators)
- visual fire-alarm indicators
- listening or telephone devices for people who have a hearing impairment
- disability-specific computer software and hardware attachments

Renovating an older building

Renovations or repairs are usually considered to be a current expense. When you renovate or repair an older building that you bought to make it suitable to rent, the cost of the work is considered a capital expense.

Construction soft costs

You may have certain costs relating to the period you were constructing, renovating or altering your rental building to make it more suitable to rent. These expenses are sometimes called **soft costs**. They include:

- interest
- legal fees
- accounting fees
- property taxes

Soft costs for the period of construction, renovation or alteration of a building are made-up of the soft costs related to the building and ownership of the related land. The building's related land consists of the land:

- that is under the building
- that is just beside the land under the building; used or intended for use for a parking area, driveway, yard, garden or any other similar use; and necessary for the use or intended use of the building

Depending on your situation, soft costs may be deductible as a current expense or added to the cost of the building.

Soft costs related to the building may be deductible as a current expense if they relate to:

- only the construction, renovation or alteration of the building
- the time period it took place in

We consider the period of construction, renovation or alteration to be completed on whichever date is earlier:

- the date the work is completed
- the date you rent 90% or more of the building

When these conditions are met, the amount of soft costs related to the building that you can deduct is limited to the amount of rental income earned from the building.

Soft costs that do not meet the above conditions can be added to the capital cost of the building and **not** the land.

CCA, landscaping costs and disability-related modifications to the buildings' costs are not subject to the soft cost rules.

For more information on CCA, see Chapter 4.

For more information on landscaping costs, see "Landscaping costs" on page 21.

For more information on costs for disability-related modifications, see "Modifications to rental properties to accommodate persons with disabilities" on page 16.

Personal portion of total expenses

If you rent part of the building where you live, you can claim the amount of your expenses that relate to the rented area of the building. You have to **divide** the expenses that relate to the whole property between your personal part and the rented area. You can split the expenses using square metres or the number of rooms you are renting in the building.

For example, if you rent 4 rooms of your 10-room house, you can deduct:

- 100% of the expenses that relate only to the rented rooms, such as repairs and maintenance of the rooms; **plus**
- 40% (4 out of 10 rooms) of the expenses that relate to the whole building, such as taxes and insurance.

If you rent rooms in your home to a lodger or roommate, you can claim all of the expenses for the part you are renting. You can also claim a portion of the expenses for the rooms in your home that you are not renting and that both you and your lodger or roommate use. You can use factors such as availability for use or the number of persons sharing the room to calculate the allowable expenses. You can also calculate these amounts by estimating the percentage of time the lodger or roommate spends in these rooms (for example, the kitchen and living room).

Fill in "Part 4 – Expenses" on Form T776 as follows:

- enter the full amount of each expense under "Total expenses"
- enter the part of each expense that was for personal use under "Personal portion of total expenses"
- **add** up the amounts in each column and enter the result for "Total expenses" on amount A, and enter the "Personal portion of total expenses" on line 9949

If you are a co-owner or member of a partnership, enter the personal portion of the expenses for all co-owners or partners on line 9949.

You **cannot** claim the expenses for renting part of your property if you have no reasonable expectation of making a profit.

For more information on renting part of your personal residence, see "Changing part of your principal residence to a rental property" on page 47. For information on business-use-of-home expenses, see "Line 9945 – Business-use-of-home expenses" in Guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income.

Example
Patrick rents out 3 rooms of his 12-room house. He is not sure how to split the expenses when he reports his rental income. His expenses were property taxes, electricity, insurance and the cost of advertising for tenants in the local newspaper.

Patrick can claim the part of his expenses that relate to the area of the property he rented in the current tax year. Since he rented 25% of his residence (3 out of 12 rooms), he can deduct 25% of his property taxes, electricity and insurance costs from his rental income. He can deduct the full amount of the advertising expense, since this expense relates only to the rented area.

When he fills in Form T776, Patrick enters the full amount of each expense in the "Total expenses" column. Then, in the "Personal portion of total expenses" column, he shows the part of each expense that relates to his personal use. In this case, he enters 75% of the property taxes, electricity and insurance costs for the property. He will not enter anything for advertising in the "Personal portion of total expenses" column.

Patrick can also claim CCA on the rented area of the property if it does not create or increase a rental loss and he is not designating the building as his principal residence.

Short-term rental portion of total expenses

If you earn income from a short-term rental, you can deduct expenses that relate to your short-term rental unless they are a non-compliant amount (see "Non-compliant amount" on page 8).

To calculate the part of expenses you cannot deduct from your income, fill in “Part 4 – Expenses” on Form T776 as follows:

- enter the part of each expense related to residential properties that were short-term rentals at any time during the year under “Short-term rental portion of total expenses”
- **add** up the amounts in that column and enter the result on line 9365
- fill in “Chart A – Non-compliant amount of expenses for short-term rentals” on Form T776
- enter amount B from Chart A on line 9366, “Non-compliant amount of expenses for short-term rentals”

Example
In 2024, Kevin had three short-term rentals:

- rental 1, which he rented for 84 days
- rental 2, which he rented for 35 days
- rental 3, which he rented for 14 days

Rental 2 is one of two units within one residential property. The other unit in that residential property is a long-term rental and is therefore excluded from Chart A. Both rental 1 and rental 3 are residential properties with only one unit each.

Kevin registered to operate rental 1 with the province or municipality halfway through the 84-day period. He did not register to operate rental 2 as a short-term rental with the province or municipality. He registered rental 3 from the start of the rental period.

Kevin determines that rental 1 was a non-compliant short-term rental for 42 days, rental 2 was a non-compliant short-term rental during the entire rental period and rental 3 was a compliant short-term rental the entire rental period.

If a short-term rental is compliant with all applicable requirements by December 31, 2024, the short-term rental is considered compliant for the entire 2024 tax year. This rule **only** applies for 2024.

Since rental 1 and rental 3 were compliant with all applicable requirements by December 31, 2024, they are both considered compliant short-term rentals for the entire year. Therefore, the number of days rental 1 and rental 3 were non-compliant short-term rentals is zero.

Kevin has a total short-term rental expense portion of $4,300, which he enters on line 9365.

To calculate his non-compliant amount of expenses, Kevin divides the total short-term rental expense portion, $4,300, between each of his short-term rentals and enters the following in Chart A:

1 Rental property address	**2** Unit number	**3** Related portion of the total from line 9365 of Part 4	**4** Number of days the residential property was a non-compliant short-term rental	**5** Number of days the residential property was a short-term rental	**6** Non-compliant amount
Rental 1 address		2,100	0	84	0
Rental 2 address	1	1,500	35	35	1,500
Rental 3 address		700	0	14	0

To calculate the non-compliant amount at column 6, Kevin multiplies the amount from column 3 by the amount in column 4, divided by the amount in column 5.

Kevin then adds the amounts from column 6 and enters the total, $1,500, on line 9366, “Non-compliant amount of expenses for short-term rentals,” in Part 4 of Form T776.

Expenses you can deduct

Prepaid expenses

A prepaid expense is an expense you paid for ahead of time. Under the **accrual method** of accounting, claim the expense you prepay in the year or years in which you get the related benefit.

Under the **cash method** of accounting, you cannot deduct a prepaid expense amount (other than for inventory) relating to a tax year that is two or more years after the year the expense is paid. However, you can deduct the part of an amount you paid in a previous year for benefits received in the current tax year. These amounts are deductible as long as you have not previously deducted them.

Example
Catherine paid $2,100 for insurance on her rental property. The insurance was for the current tax year and the two following years. Although she paid the insurance for three years, she can deduct only the part that applies to the current tax year from her gross rental income.

Catherine can deduct $700 in the current tax year and $700 in each of the following two years.

For more information, see Interpretation Bulletin IT-417, Prepaid Expenses and Deferred Charges.

Line 8521 – Advertising

You can deduct expenses for advertising, including advertising in Canadian newspapers and on Canadian television and radio stations. You can also include any amount you paid as a finder's fee.

Line 8690 – Insurance

You can deduct the premiums you pay on your rental property for the current year. If your policy gives coverage for more than one year, deduct only the premiums related to the current year. Deduct the remaining premiums in the year(s) to which they relate.

Line 8710 – Interest and bank charges

You can deduct the interest charge on money you borrow to buy or improve your rental property. If you have interest expenses that relate to the construction or renovation period, see "Construction soft costs" on page 16.

You can also deduct interest charges you paid to tenants on rental deposits. If you are claiming interest as a rental expense on Form T776, do not include it as a carrying charge on Form 5000-D1, Federal Worksheet (for all except non-residents).

Do not deduct in full for the year any lump-sum amount paid for interest or a fee paid to reduce the interest rate on a mortgage. You prorate these amounts for the rest of the original term of the mortgage or loan. You also prorate a penalty or bonus paid to a financial institution to pay off your mortgage loan before it is due.

For example, if the term of your loan or mortgage is five years and in the third year you pay a fee to reduce your interest rate, treat this fee as a prepaid expense and deduct it over the remaining term of the loan or mortgage.

You can deduct certain fees when you get a mortgage or loan to buy or improve your rental property. If the loans relate to the construction or renovation period, first read about soft costs on page 16.

Loan fees include:

- mortgage applications, appraisals, processing and insurance fees
- mortgage guarantee fees
- mortgage brokerage and finder's fees
- legal fees related to mortgage financing

You deduct these fees over a period of five years, regardless of the term of your loan. Deduct 20% (100% divided by five years equals 20%) in the current tax year and 20% in each of the next four years. The 20% limit is reduced proportionally for fiscal periods of less than 12 months.

If you repay the loan before the end of the five-year period, you can deduct the remaining financing fees then. The number of years for which you can deduct these fees is not related to the term of your loan.

If you incur standby charges, guarantee fees, service fees or any other similar fees, you may be able to deduct them in full in the year you incur them. For more information, see Interpretation Bulletin IT-341, Expenses of Issuing or Selling Shares, Units in a Trust, Interests in a Partnership or Syndicate and Expenses of Borrowing Money.

You can choose to treat finance fees you paid and the interest on money you borrowed to acquire depreciable property as capital expenses.

If you refinance your rental property to get money for a business or other investments, you may be able to claim the interest expenses on Form 5000-D1, Federal Worksheet (for all except non-residents). See line 22100 in the Federal Income Tax and Benefit Information or the "Expenses" chapter in Guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income. If the funds are for personal use, you cannot deduct the interest expenses.

You were asking?

Q. I own and rent a semi-detached house. This year, I refinanced the property to increase the mortgage because I needed money for a down payment on my personal residence. Can I deduct the additional interest on the mortgage against my rental income?

A. No. You are making personal use of the funds you got from refinancing your rental property. As a result, you **cannot** deduct the additional interest when you calculate your net income or loss from your rental property.

Line 8810 – Office expenses

You can deduct the cost of office expenses. These include small items such as pens, pencils, paper clips, stationery and stamps.

Office expenses do not include capital expenditures to acquire capital property such as calculators, filing cabinets, chairs and a desk. These are capital items.

Line 8860 – Professional fees (includes legal and accounting fees)

You can deduct fees for legal services to prepare leases or collect overdue rents. If you incur legal fees to buy your rental property, you cannot deduct them from your gross rental income. Instead, **divide** the fees between land and building and add them to their respective cost. For example, you buy a property worth $200,000 ($50,000 for the land and $150,000 for the building) and incur legal fees of $10,000. Split the $10,000 proportionately between the land and building. In this case, $2,500 is added to the cost of the land (for a total of $52,500) and $7,500 is added to the cost of the building (for a total of $157,500). For more information, see "Land" on page 33.

Note
The legal fees you paid when selling your rental property are deducted from your proceeds of disposition when calculating your capital gain or loss. The deduction for legal fees also applies when calculating a recapture of CCA or a terminal loss.

You can also deduct expenses you had for bookkeeping services, audits of your records and preparing financial statements. You may be able to deduct fees and expenses for advice and help to prepare your income tax return and any related information returns.

Line 8871 – Management and administration fees

You can deduct the amounts paid to a person or a company to manage your property. You can also deduct amounts paid or payable to agents for collecting rents or finding new tenants.

If you paid commissions to a real estate agent when selling your rental property, include them as "Outlays and expenses" on Schedule 3, Capital Gains or Losses, when you report the disposition of your property.

Line 8960 – Repairs and maintenance

You can deduct the cost of labour and materials for any minor repairs or maintenance done to property you use to earn income. You **cannot** deduct the value of your own labour.

You cannot deduct costs you incur for repairs that are capital in nature. However, you can claim CCA.

Line 9060 – Salaries, wages and benefits

You can deduct amounts paid or payable to superintendents, maintenance personnel and others you employ to take care of your rental property. You **cannot** deduct the value of your own services.

As the employer, you must deduct your part of Canada Pension Plan or Quebec Pension Plan contributions and employment insurance premiums. You can also deduct workers' compensation amounts payable on employees' remuneration and Provincial Parental Insurance Plan (PPIP) premiums. The PPIP is an income replacement plan for residents of Quebec. For details, contact Revenu Québec. For more information on making payroll deductions, go to **canada.ca/payroll**.

You can also deduct any insurance premiums you pay for an employee for a sickness, an accident, a disability or an income insurance plan.

For more information on wages, see Guide T4001, Employer's Guide – Payroll Deductions and Remittances.

Line 9180 – Property taxes

You can deduct property taxes you incurred for your rental property for the period it was available for rent. For example, you can deduct property taxes for the land and building where your rental property is situated. For more information, see "Vacant land" on page 22 and "Construction soft costs" on page 16.

Line 9200 – Travel

You can deduct travel expenses you incur to collect rents, supervise repairs and manage your properties. Travel expenses include the cost of getting to your rental property but do not include board and lodging, which we consider to be personal expenses. To claim the travel expenses you incur, you need to meet the same requirements discussed at "Line 9281 – Motor vehicle expenses" on this page.

Line 9220 – Utilities

You can deduct expenses for utilities, such as gas, oil, electricity, water and cable, if your rental arrangement specifies that you pay for the utilities of your rental space or units.

Line 9281 – Motor vehicle expenses (not including capital cost allowance)

You can deduct motor vehicle expenses in the following circumstances:

- If you own one rental property:

  You can deduct reasonable motor vehicle expenses if you meet **all** of the following conditions:

  – you receive income from only one rental property that is in the general area where you live

  – you personally do part, or all, of the necessary repairs and maintenance on the property

  – you have motor vehicle expenses to transport tools and materials to the rental property

You **cannot** deduct motor vehicle expenses you incur to collect rents. These are personal expenses.

- If you own two or more rental properties:

  In addition to the expenses listed above, you can deduct reasonable motor vehicle expenses you incur to do any of the following:

  – collect rents

  – supervise repairs

  – manage the properties

This applies whether your rental properties are located in or outside the general area where you live. Your rental properties have to be located in at least two different sites, away from your principal residence. The motor vehicle expenses that we consider to be reasonable depend on the circumstances of your situation.

For the definition of motor vehicle, see "Definitions" on page 6.

For information on how to calculate the motor vehicle expenses, see Guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income.

Line 9270 – Other expenses

There are expenses you can incur to earn rental income other than those listed on Form T776. We cover some of them in the following sections. Enter on this line the total of other expenses you incurred to earn income, as long as you did not include them on a previous line.

Landscaping costs

You can deduct the cost of landscaping the grounds around your rental property only in the year you paid the cost, even if you use the accrual method for calculating your rental income.

Lease cancellation payments

You can deduct amounts paid or payable to tenants to cancel their leases. The deductible amount is calculated as follows:

If you made the cancellation payment in the year:

Cancellation payment × Number of days to the end of the year when payment is made ÷ Number of days left on the lease

If you made the cancellation payment in a previous year:

Cancellation payment × Number of days in the year left on the lease ÷ Number of days left on the lease

For this calculation, the life of the lease (including all renewal periods) **cannot** be longer than 40 years.

Example
Samir is a landlord. He paid his tenant $1,000 to cancel a lease on August 18 of the current tax year. The lease was due to expire on December 31 of the next year. When he made the payment, there were 135 days left in the current year and 500 days left on the lease.

For the current tax year, Samir deducts $270, calculated as follows:

$1,000 × 135 ÷ 500 = **$270**

For the next year, Samir deducts $730 calculated as follows:

$1,000 × 365 ÷ 500 = **$730**

If you dispose of the property, the tax treatment will vary depending on your situation. For more information, see Interpretation Bulletin IT-359, Premiums and Other Amounts with Respect to Leases.

Condominium fees

If you earn rental income from a condominium unit, you can deduct the expenses that you would usually deduct from it. You can also deduct condominium fees that represent your share of the upkeep, repairs, maintenance and other current expenses of the common property. For more information, see Interpretation Bulletin IT-304, Condominiums.

Vacant land

You might earn rental income from vacant land. You can deduct your operating expenses from this income. There are limits on how much you can deduct for both:

- interest on money you borrowed to acquire the land, or on an amount payable for the land
- property taxes on the land assessed by a province or territory and a Canadian municipality, including assessments for school taxes and local improvements

The amount you can deduct for these two expenses is limited to the amount of rental income left after you have deducted all other expenses. You **cannot** create or increase a rental loss, or reduce other sources of income, by claiming a deduction for interest or property taxes. They can be added to the cost of the land. This will decrease your capital gain or increase your capital loss when you dispose of the land.

You **cannot** deduct your mortgage interest and property taxes for vacant land if you are not earning any income from that land. You **cannot** add these expenses to the adjusted cost base of your land. In addition, you **cannot** deduct income taxes, profit taxes or land transfer taxes you have for the vacant land.

For more information on vacant land, see Interpretation Bulletin IT-153, Land Developers – Subdivision and Development Costs and Carrying Charges on Land, and Interpretation Bulletin IT-456, Capital Property – Some Adjustments to Cost Base, and its Special Release.

You were asking?

Q. In 1995, I bought vacant land as an investment. In the current tax year, I rented this land to a farmer for pasture. Can I deduct my mortgage interest and property taxes from my rental income?

A. Yes. After deducting all your other allowable expenses, you can deduct the amount of your mortgage interest and property taxes for the year that you need to reduce your remaining rental income to zero. If you do not need to use the full amount of your taxes and interest, you can **add** the rest to the adjusted cost base of the land.

Expenses you cannot deduct

Land transfer taxes

You **cannot** deduct land transfer taxes you paid when you bought your property. **Add** these amounts to the cost of the property.

Mortgage principal

You **cannot** deduct the repayments of principal on your mortgage or loan on your rental property. For more information about the interest part of your mortgage, see "Line 8710 – Interest and bank charges" on page 19.

Penalties

You **cannot** deduct any penalties shown on your notice of assessment or notice of reassessment.

Value of your own labour

You **cannot** deduct the value of your own services or labour.

Line 9949 – Total for personal portion

Enter the total amount from the column called "Personal portion of total expenses." For more information, see "Personal portion of total expenses" on page 17.

Line 9366 – Non-compliant amount of expenses for short-term rentals

You cannot deduct the non-compliant amount of expenses related to non-compliant short-term rentals (see "Definitions" on page 6). Fill in "Chart A – Non-compliant amount of expenses for short-term rentals" on the form. This chart will help you calculate your non-compliant amount of expenses. For an example on how to fill in Chart A, see "Short-term rental portion of total expenses" on page 17.

Line 9367 – Non-compliant amount of capital cost allowance (CCA) for short-term rentals

You cannot deduct the non-compliant amount of CCA related to non-compliant short-term rentals (see "Definitions" on page 6). Fill in "Chart B – Non-compliant amount of CCA for short-term rentals" on the form. This chart will help you calculate your non-compliant amount of CCA.

Deductible expenses

Your deductible expenses are your total expenses **minus** your total personal expenses **minus** your non-compliant amount of expenses for short-term rentals.

Line 9369 – Net income (loss) before adjustments

Enter the gross income **minus** the deductible expenses (line 8299 **minus** amount 1). This amount is the net rental income of all co-owners or partners before any claim for CCA.

Co-owners – Your share of line 9369

If you are a co-owner, enter your share of the amount from line 9369 on amount 2. This amount is based on your share of ownership of the rental property.

If you are a co-owner or partner, also fill in "Part 2 – Details of other co-owners and partners."

Line 9945 – Other expenses of the co-owner

Enter the amount of deductible expenses you have as a co-owner that you did not deduct elsewhere.

Line 9947 – Recaptured capital cost allowance

If you had a recapture of CCA, enter that amount on this line. If you are a co-owner, enter your share of the amount. We explain recapture of CCA on page 35.

Line 9948 – Terminal loss

Enter any terminal loss amount you had on the sale of rental property on this line. If you are a co-owner, enter your share of the amount. We explain terminal loss on page 35.

Line 9936 – Total capital cost allowance claim for the year

Enter the amount of your total CCA claim for the year from amount ii in Area A **minus** any personal part of CCA, and any CCA for business-use-of-home expenses. For information on how to calculate CCA, see Chapter 4.

If you are a member of a partnership that does not need to issue you a T5013 slip, enter the total CCA allocated on the financial statements the partnership gave you.

Do not use the amount from line 9936 if you are a member of a partnership that has to file Form T5013 SUM, Summary of Partnership Income. Your CCA amount is already included in box 110 of your T5013 slip.

Net income (loss)

Enter your net income (loss) on amount 6.

Amount 7 – Partnerships

If you are a member of a partnership, enter your share of amount 6 or the amount from box 107 or 110 from your T5013 slip.

Line 9974 – GST/HST rebate for partners received in the year

If you received a GST/HST rebate for partners, report the amount of the rebate that relates to eligible expenses other than CCA on line 9974 of your Form T776 for the year you receive the rebate.

Line 9943 – Other expenses of the partner

Enter the amount of deductible expenses you have as a partner that you did not deduct elsewhere on Form T776.

Line 9946 – Your net income (loss)

This is the amount of your net income or loss for the tax year. Enter the amount from line 9946 on line 12600 of your income tax return.

Rental losses

You have a rental loss if your rental expenses are more than your gross rental income. If you incur the expenses to earn income, you can deduct your rental loss against your other sources of income.

Renting below fair market value

You can deduct your expenses only if you incur them to earn an income. In certain cases, you may ask your son or daughter, or anyone else living with you, to pay a small amount for the upkeep of your house or to cover the cost of groceries. You **do not** report this amount in your income, and you **cannot** claim rental expenses. This is a cost-sharing arrangement, so you **cannot** claim a rental loss.

If you lose money because you rent a property to a person you know for less money than you would to a person you do not know, you **cannot** claim a rental loss. When your rental expenses are consistently more than your rental income, you may not be allowed to claim a rental loss because your rental operation is not considered to be a source of income. You can claim a rental loss if you are renting the property to a relative for the same rate as you would charge other tenants and you expect to make a profit.

Chapter 4 – Capital cost allowance

Find out what capital cost allowance is

You might acquire a depreciable property, such as a building, furniture or equipment, to use in your rental activities.

You cannot deduct the cost of the property when you calculate your net rental income for the year.

However, since these properties may wear out or become obsolete over time, you can deduct their cost over a period of several years. The deduction is called capital cost allowance (CCA).

You can usually claim CCA on a property once it has become **available for use** (see “Definitions” on page 6).

Amount of CCA you can claim

The CCA you can claim depends on the type of property you own and the date you acquired it. Group the depreciable property you own into classes. A specific rate of CCA generally applies to each class.

> **Note**
> If you use depreciable property to earn income from a short-term rental, you cannot claim the non-compliant amount of CCA. For more information, see “Line 9367 – Non-compliant amount of capital cost allowance (CCA) for short-term rentals” on page 23.

We explain the most common classes of depreciable rental property and the rates that apply to each class under “Classes of depreciable property” on page 25. For the most part, use the declining balance method to calculate your CCA, as it is the most common one. This means that you apply the CCA rate to the **capital cost** of the depreciable property. Over the life of the property, the rate is applied against the remaining balance. The remaining balance declines each year that you claim CCA.

Example
Last year, Abeer bought a rental building for $60,000. On her income tax return for last year, she claimed CCA of $1,200 on the building. This year, Abeer bases her CCA claim on her remaining balance of $58,800 ($60,000 – $1,200).

You do not have to claim the maximum amount of CCA in any given year. You can claim any amount you like, from zero to the maximum allowed for the year. If you do not have to pay income tax for the year, you may not want to claim CCA. Claiming CCA reduces the balance of the class by the amount of CCA claimed. As a result, the amount of CCA available for you to claim in future years will be reduced.

Note
If you are a member of a partnership, the amount of CCA you can claim has already been determined by the partnership. If you receive a T5013 slip, your CCA amount is already included in box 110. If you are a member of a partnership that does not need to issue this slip, the total partnership CCA will be shown on the financial statements you receive.

Limits on CCA

In the year you **acquire** rental property, you can usually claim CCA only on one-half of your net additions to a class. This is the half-year rule (also known as the 50% rule) which we explain under "Column 15 – Adjustment for current-year additions subject to the half-year rule" on page 36. The **available-for-use** rules may also affect the amount of CCA you can claim (see "Definitions" on page 6).

In the year you **dispose** of rental property, you may have to **add** an amount to your income as a recapture of CCA or deduct an amount from your income as a terminal loss. We explain recapture and terminal loss under "Column 7 – UCC after additions and dispositions" on page 35.

If you own more than one rental property, you have to calculate your overall net income or loss for the year from all your rental properties before you can claim CCA. If you are a partner, include the net rental income or loss from your T5013 slip in the calculation. Combine the rental income and loss from all your properties, even if they belong to different classes. This also applies to furniture, fixtures and appliances that you use in your rental building. You can claim CCA for these properties, the building, or both.

You **cannot** use CCA to create or increase a rental loss. Do **not** apply the half-year rule to accelerated investment incentive properties or zero-emission vehicles.

Example
Salvador owns three rental properties. Two of these properties are Class 1 buildings and one is a Class 3 building. All the buildings contain Class 8 appliances. Salvador's net rental income from these properties is as follows:

Building		Net rental income (or loss)
1 (Class 1)		$ 1,500
2 (Class 1)	+	$ 2,000
3 (Class 3)	+	($ 4,000)
Total	=	($ 500)

Salvador has an overall net loss of $500. Since he is not allowed to increase his rental loss by claiming CCA, he cannot claim any CCA on his rental buildings or appliances.

For more information about loss restrictions on rental and leasing properties, see Interpretation Bulletin IT-195, Rental Property – Capital Cost Allowance Restrictions, and Interpretation Bulletin IT-443, Leasing Property – Capital Cost Allowance Restrictions, and its Special Release.

Classes of depreciable property

In this part, we discuss the more common classes of depreciable rental property and the rates that apply to each class.

If you need more information, see Interpretation Bulletin IT-79, Capital Cost Allowance – Buildings or Other Structures.

A **condominium** unit in a building belongs to the same class as the building. For example, if you own a condominium in a building that is a Class 3 property, the unit in the building is a Class 3 **rental property**. If the whole building qualifies as a Class 31 or Class 32 rental property (a MURB), then each unit within the building is a Class 31 or 32 rental property.

For more information on CCA and condominiums, see Interpretation Bulletin IT-304, Condominiums.

Leasehold interest in real property that is a rental property

A leasehold interest is the interest of a tenant in any leased tangible property.

If you are a taxpayer or partnership and own a leasehold interest in a real property that is a rental property, include the leasehold interest in Class 1, 3, 6 or 13 (or Class 3, 6 or 13 for tax years before 1988).

It may be necessary in some situations to **divide** the capital cost of a leasehold interest into more than one prescribed class. For example, where you expend an amount to obtain a leasehold interest in land and construct a building that falls into Class 3, the capital cost of acquiring the lease will be included in Class 13 and the capital cost of the building will be included in Class 3.

Class 1 (4%)

A **rental building** may belong to Classes 1, 3, 6, 31 or 32, depending on what the building is made of and the date you acquire it. You also include in these classes the parts that make up the building, such as:

- electric wiring
- lighting fixtures
- plumbing
- sprinkler systems
- heating equipment
- air-conditioning equipment (other than window units)
- elevators
- escalators

Note
Land is not depreciable property. Therefore when you acquire property, only include the cost related to the building in Area A and Area C. Enter on line 9923 in Area F the cost of all land additions in the year. For more information, see "Area F – Land additions and dispositions in the year" on page 33 and "Column 3 – Cost of additions in the year" on page 33.

Class 1 includes most buildings acquired after 1987, unless they specifically belong to another class. Class 1 also includes the cost of certain additions or alterations you made to a Class 1 building or certain buildings of another class after 1987.

The CCA rate for **eligible** non-residential buildings acquired by a taxpayer after March 18, 2007, and used in Canada to manufacture or process goods for sale or lease includes an additional allowance of 6% for a total rate of 10%. The CCA rate for **other eligible** non-residential buildings includes an additional allowance of 2% for a total rate of 6%.

To be eligible for one of the additional allowances, you must elect to put a building in a separate class. To make the election, attach a letter to your return for the tax year in which you acquired the building. If you do not file an election to put it in a separate class, the 4% rate will apply.

The additional allowance applies to buildings acquired after March 18, 2007, (including a new building, if any part of it is acquired after March 18, 2007, when the building was under construction on March 19, 2007) that have not been used or acquired for use before March 19, 2007.

To be eligible for the additional 6% allowance, you must use at least 90% of the building (measured by square footage) in Canada for the designated purpose at the end of the tax year. Manufacturing and processing buildings that do not meet the 90% used test are eligible for the additional 2% allowance. Eligibility applies if at least 90% of the building is used in Canada for non-residential purposes at the end of the tax year.

Class 3 (5%)

Most buildings acquired before 1988 are included in Class 3 or Class 6.

If you acquired a building before 1990 that does not fall in Class 6, you can include it in Class 3 with a CCA rate of 5% if **one** of the following applies:

- you acquired the building under the terms of a written agreement entered into before June 18, 1987
- the building was under construction by you, or for you, on June 18, 1987

Include in Class 3 the cost of any additions or alterations made after 1987 to a Class 3 building that does not exceed the **lesser** of the following two amounts:

- $500,000
- 25% of the building's capital cost (including the cost of additions or alterations to the building included in Classes 3, 6 or 20 made before 1988)

Any amount that exceeds the lesser amount above should be included in Class 1.

Class 6 (10%)

Include a building in Class 6 with a CCA rate of 10% if it is made of frame, log, stucco on frame, galvanized iron or corrugated metal. In addition, **one** of the following conditions has to apply:

- you acquired the building before 1979
- the building has no footings or other base supports below ground level
- the building is used to gain or produce income from farming or fishing. Farming and fishing income is not rental income

If any of the above conditions apply, **add** to Class 6 the full cost of all the building's additions and alterations.

If none of the above conditions apply, include the building in Class 6 if **one** of the following conditions applies:

- you entered into a written agreement before 1979 to acquire the building, and the footings or other base supports of the building were started before 1979
- you started construction of the building before 1979 (or it was started under the terms of a written agreement you entered into before 1979), and the footings or other base supports of the building were started before 1979

Also include in Class 6 certain greenhouses and fences.

For additions or alterations to such a building:

- **Add** to Class 6 the first $100,000 of additions or alterations made after 1978
- **Add** to Class 3:
  - the part of the cost of all additions or alterations over $100,000 made after 1978 and before 1988
  - the part of the cost of additions or alterations over $100,000 made after 1987, but only up to $500,000 or 25% of the cost of the building, whichever is less
- **Add** to Class 1 any additions or alterations over these limits

For more information, see Interpretation Bulletin IT-79, Capital Cost Allowance – Buildings or Other Structures.

Class 8 (20%)

Class 8 with a CCA rate of 20% includes certain property that is not included in another class. Examples include furniture, household appliances, a tool costing $500 or more, some fixtures, machinery, outdoor advertising signs, refrigeration equipment and other equipment you use in your rental operation.

Photocopiers and electronic communications equipment, such as fax machines and electronic telephone equipment are also included in Class 8.

> **Note**
> If this equipment costs $1,000 or more, you can elect to have it included in a separate class. The CCA rate will not change but a separate CCA deduction can now be calculated for a five-year period. When all the property in the class is disposed of, the undepreciated capital cost (UCC) is fully deductible as a terminal loss. Any UCC balance remaining in the separate class at the end of the fifth year has to be transferred back to the general class in which it would otherwise belong. To make an election, attach a letter to your income tax return for the tax year in which you acquired the property. If you are filing electronically, mail your letter to your tax centre. You can find your tax centre's address at **canada.ca/cra-offices**.

Class 10 (30%)

Class 10 with a CCA rate of 30% includes general-purpose electronic data processing equipment (commonly called computer hardware) and systems software for that equipment, including ancillary data processing equipment, if you acquired them either:

- before March 23, 2004
- after March 22, 2004, and before 2005, and you made an election

Class 10 also includes motor vehicles, as well as some passenger vehicles (see definitions of **motor vehicle** and **passenger vehicle** on page 8).

Include passenger vehicles in Class 10 unless they meet the Class 10.1 conditions.

Eligible zero-emission vehicles (see definition on page 9) are included in Class 54.

Class 10.1 (30%)

Your **passenger vehicle** (see "Definitions" on page 6) can belong to either Class 10 or Class 10.1.

To determine the class your passenger vehicle belongs in, you have to use the cost of the vehicle before you **add** the GST/HST or the provincial sales tax (PST).

Include your passenger vehicle in Class 10.1 if you bought it in 2024 and it cost more than $37,000 before tax. List each Class 10.1 vehicle separately.

The capital cost limits of a Class 10.1 passenger vehicle are as follows: $30,000 for vehicles acquired before 2022, $34,000 for vehicles acquired in 2022, $36,000 for vehicles acquired in 2023, and $37,000 for vehicles acquired in 2024, plus the GST/HST, or PST.

> **Note**
> Use the GST rate of 5% and the appropriate PST rate for your province or territory. If your province is a participating province, use the appropriate HST rate. For more information on the GST and the HST, see Guide RC4022, General Information for GST/HST Registrants.

Under the immediate expensing rules, if you dispose of a passenger vehicle acquired after April 18, 2021, to a person or partnership with whom you deal at arm's length, and its cost exceeds the prescribed amount ($30,000 for vehicles acquired after 2000 and before January 1, 2022; $34,000 for vehicles acquired after December 31, 2021, and before January 1, 2023; $36,000 for vehicles acquired after December 31, 2022, and before January 1, 2024; or $37,000 for vehicles acquired after December 31, 2023), the proceeds of disposition will be adjusted based on a factor equal to the prescribed amount as a proportion of the actual cost of the vehicle.

The following chart will help you to determine if you have a motor vehicle or a passenger vehicle. The chart does not cover every situation, but it gives some of the main definitions for vehicles bought or leased and used to earn income. For more information, see "Keeping motor vehicle records" in Guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income.

Vehicle definitions

Type of vehicle	Seating (includes driver)	Business use in year bought or leased	Vehicle definition
Coupe, sedan, station wagon, sports car or luxury car	1 to 9	1% to 100%	passenger
Pick-up truck used to transport goods or equipment	1 to 3	more than 50%	motor
Pick-up truck (other than above)	1 to 3	1% to 100%	passenger
Pick-up truck with extended cab used to transport goods, equipment or passengers	4 to 9	90% or more	motor
Pick-up truck with extended cab (other than above)	4 to 9	1% to 100%	passenger
Sport utility vehicle used to transport goods, equipment or passengers	4 to 9	90% or more	motor
Sport utility vehicle (other than above)	4 to 9	1% to 100%	passenger
Van or minivan used to transport goods or equipment	1 to 3	more than 50%	motor
Van or minivan (other than above)	1 to 3	1% to 100%	passenger
Van or minivan used to transport goods, equipment or passengers	4 to 9	90% or more	motor
Van or minivan (other than above)	4 to 9	1% to 100%	passenger

Eligible zero-emission vehicles (see "Definitions" on page 6) are included in Class 54.

Class 13

The capital cost of a leasehold interest of Class 13 property includes an amount that a tenant spends:

- on improvements or alterations to a leased property that is capital in nature, other than improvements or alterations that are included as part of the building or structure
- to obtain or extend a lease or sublease of the property and pays it to the landlord

The maximum CCA rate depends on the type of leasehold interest and the terms of the lease.

Certain amounts are **not** included in the capital cost of a leasehold interest. These include:

- an amount paid by a tenant to cancel a lease

- an amount paid by a tenant instead of rent or as a prepayment of rent

For more information on leasehold interests, see Income Tax Folio S3-F4-C1, General Discussion of Capital Cost Allowance.

Class 16 (40%)

Class 16 includes:

- taxis acquired after May 25, 1976
- vehicles acquired after November 12, 1981, which you use in a daily car rental business
- coin operated video games or pinball machines acquired after February 15, 1984
- freight trucks acquired after December 6, 1991, that are rated above 11,788 kg

Eligible zero-emission vehicles (see definition on page 9) are included in Class 55.

Class 31 (5%) and Class 32 (10%)

Class 31 and Class 32 include multiple-unit residential buildings (MURB) certified by the Canada Mortgage and Housing Corporation to which **all** of the following conditions apply:

- they are located in Canada
- they contain two or more units
- they provide their occupants with a relatively permanent residence

If the entire MURB qualifies under Class 31 or 32 rental property, then each unit within the building falls under the same class.

To be included in Class 31 with a CCA rate of 5%, the building must have been acquired after 1979 and before June 18, 1987.

To be included in Class 32 with a CCA rate of 10%, the building must have been acquired before 1980.

> **Note**
> For 1994 and following years, you can no longer create or increase a rental loss by claiming CCA on a Class 31 or Class 32 property.

When a MURB no longer qualifies as a Class 31 or Class 32 rental property, you have to transfer it to the correct class.

For more information about the 1994 change in the CCA limit on MURBs, see Interpretation Bulletin IT-195, Rental Property – Capital Cost Allowance Restrictions.

Class 43.1 (30%) and Class 43.2 (50%) – Clean energy equipment

Classes 43.1 and 43.2 provide accelerated CCA rates for qualifying investments in clean energy generation and energy conservation equipment. Most of the equipment described in Class 43.1 (30% CCA rate) qualifies under Class 43.2 (50% CCA rate) when you acquire the property before 2025.

For property that becomes available for use after 2024, access to Classes 43.1 and 43.2 for certain fossil-fuelled and low efficiency waste-fuelled electrical generation equipment is restricted by:

- removing some property that are currently included in these classes (for example, fossil-fuelled cogeneration systems)
- narrowing the eligibility by imposing heat rate thresholds for others (for example, producer gas generating equipment)

These properties may benefit from the enhanced first-year CCA that previously provided full expensing of the property in the year of acquisition. This enhanced first-year CCA is now being gradually phased out for property that becomes available for use after 2023 and before 2028.

For more information, see Income Tax Folio S3-F8-C2, Tax Incentives for Clean Energy Equipment.

For more information on the enhanced first-year CCA, go to **canada.ca/taxes-accelerated-investment-income**.

Class 50 (55%)

Include in Class 50 with a CCA rate of 55% property acquired after March 18, 2007, that is general-purpose electronic data processing equipment and systems software for that equipment, including ancillary data processing equipment.

Do not include property that is included in Class 29 or Class 52 or that is mainly or is used mainly as:

a) electronic process control or monitor equipment

b) electronic communications control equipment

c) systems software for equipment referred to in a) or b)

d) data handling equipment (other than data handling equipment that is ancillary to general-purpose electronic data processing equipment)

Class 53 (50%)

Include in Class 53 with a CCA rate of 50% eligible machinery and equipment that is acquired after 2015 and before 2026 (that would generally otherwise be included in Class 29) to be used in Canada primarily in the manufacturing or processing of goods for sale or lease.

Class 54 (30%) and Class 55 (40%) – Zero-emission vehicles

There are two CCA classes for zero-emission vehicles (see definition on page 9) acquired after March 18, 2019. Class 54 was created for zero-emission vehicles that would otherwise be included in Class 10 or 10.1, with the same CCA rate of 30%. Class 55 was created for zero-emission vehicles otherwise included in Class 16, with the same CCA rate of 40%. The CCA still applies on a declining-balance basis.

An enhanced first-year CCA deduction with the following phase-out period is available:

- 100% after March 18, 2019, and before 2024
- 75% after 2023 and before 2026
- 55% after 2025 and before 2028

For the enhanced first-year allowance, the following steps should be taken before calculating the CCA:

- increase the net capital cost addition to the new class for property that becomes available for use before 2028 as follows:
  - For Class 54, increase the capital cost addition by an amount equal to:
    - 2 1/3 times the net addition to the class for property that becomes available for use before 2024
    - 1 1/2 times the net addition to the class for property that becomes available for use in 2024 or 2025
    - 5/6 times the net addition to the class for property that becomes available for use after 2025 and before 2028
  - For Class 55, increase the capital cost addition by an amount equal to:
    - 1 1/2 times the net addition to the class for property that becomes available for use before 2024
    - 7/8 times the net addition to the class for property that becomes available for use in 2024 or 2025
    - 3/8 times the net addition to the class for property that becomes available for use after 2025 and before 2028
- suspend the existing CCA half-year rule

Multiply the result by the prescribed CCA rate of 30% for Class 54 and 40% for Class 55.

The CCA will be applicable on any remaining balance in these classes using the specific rate for the class.

A taxpayer may elect to not include in Class 54 or 55 a vehicle that would otherwise be a zero-emission vehicle or a zero-emission passenger vehicle. When such an election is filed, the vehicle will no longer be considered to be a zero-emission vehicle or a zero-emission passenger vehicle. As a result, the vehicle will be included in its usual CCA Class 10, 10.1 or 16 as the case may be. Such vehicles will not qualify for the enhanced first-year CCA under the ZEV rules. However those vehicles, that will be included in Class 10, 10.1 or 16, may be eligible for the immediate expensing incentive or enhanced CCA under the AIIP rules.

The election must be filed with the minister of national revenue in your income tax and benefit return for the tax year in which the vehicle is acquired. There is no provision for late-filing or amended elections.

Class 54 (30%)

Include in Class 54 zero-emission vehicles that are not included in Class 16 or 55 and would normally be included in Class 10 or 10.1.

There is a limit of $61,000 (plus federal and provincial sales taxes) on the capital cost for each zero-emission passenger vehicle in Class 54. Class 54 may include both zero-emission passenger vehicles that do and do not exceed the prescribed threshold. However, unlike Class 10.1, Class 54 does not establish a separate class for each vehicle whose cost exceeds the threshold.

If a zero-emission passenger vehicle is disposed of to a person or partnership with whom you deal at arm's length, and its cost exceeds the prescribed amount ($55,000 for vehicles acquired after March 18, 2019, and before January 1, 2022; $59,000 for vehicles acquired after December 31, 2021, and before January 1, 2023; or $61,000 for vehicles acquired after December 31, 2022), the proceeds of disposition will be adjusted based on a factor equal to the prescribed amount as a proportion of the actual cost of the vehicle. For dispositions made after July 29, 2019, the actual cost of the vehicle will also be adjusted for the payment or repayment of government assistance.

Example

	First-year enhanced allowance
Acquisition cost	$65,000
First-year CCA	$61,000 × 75% = $45,750
Undepreciated capital cost (UCC)	$61,000 – $45,750 = $15,250
Proceeds of disposition	$30,000
Part of proceeds of disposition to be deducted from the UCC	$30,000 × ($61,000 ÷ $65,000) = $28,154

Class 55 (40%)

Include in Class 55 zero-emission vehicles that would normally be included in Class 16.

Class 56 (30%)

Include in Class 56 (CCA rate of 30%) zero-emission automotive equipment and vehicles (other than motor vehicles) that do not currently benefit from the accelerated rate provided by Classes 54 and 55. To be included in this class, such property needs to be acquired after March 1, 2020, and become available for use before 2028.

The enhanced first-year CCA deduction for this class applies only for the tax year in which the equipment or vehicle first becomes available for use. The deduction is subject to the following phase-out period:

- 100% on or after March 2, 2020, and before 2024
- 75% after 2023 and before 2026
- 55% after 2025 and before 2028

To be eligible for the enhanced first-year allowance, a vehicle or equipment must be automotive (that is, self-propelled) and fully electric or powered by hydrogen. Vehicles or equipment that are powered partially by electricity or hydrogen (which includes hybrid vehicles and vehicles that require human or animal power for propulsion) are not eligible.

Class 56 captures automotive equipment that is not designed for use on highways or streets such as zero-emission aircraft, watercraft, trolley buses and railway locomotives. Additions or alterations may qualify if they convert automotive equipment (other than a motor vehicle) into a zero-emission property.

The CCA is deductible on any remaining balance in the class on a declining-balance basis, at the CCA rate of 30%.

You may elect to not include the vehicle or equipment in Class 56. As a result, you then include the property in the class for which it would otherwise be eligible.

Class 56 excludes property in respect of which CCA or a terminal loss has previously been claimed by another person or partnership where the equipment was acquired by the taxpayer on a tax-deferred "rollover" basis or it was previously owned or acquired by the taxpayer or a non-arm's length person or partnership.

Immediate expensing incentive

The immediate expensing incentive has the following characteristics:

- An eligible person or partnership (EPOP) (see definition on page 7) may deduct the full cost of designated immediate expensing properties (DIEPs) (see definition on page 7) up to $1.5 million per tax year, subject to specific limitations
- The deduction applies only to immediate expensing property (see definition on page 7) that you designated as a DIEP on the prescribed form you must file with the minister by the due date
- The deduction is available only for the year when the property becomes available for use
- The deduction is limited to $1.5 million per tax year:
  - The $1.5 million may be shared among associated members of a group. Each member must file an agreement on the prescribed form assigning a percentage to one or more of them for the year
  - The limit is also prorated for tax years shorter than 365 days

- – If the capital cost of the DIEP is more than $1.5 million and is included in more than one CCA class, the EPOP can decide which CCA class the immediate expensing deduction is attributed to

- The deduction is limited to the amount of income earned (before deducting CCA) from the business or property for which the DIEP is used

EPOPs with less than $1.5 million of eligible capital costs can't carry forward any unused annual immediate expensing limit.

As a result of this new CCA incentive, columns 4, 6, 8, 9, 10, 11 and 12 have been added to Area A of your form. For more information on how this could affect your CCA calculations, go to **canada.ca/en/department-finance/news/2022/02/expansion-of-the-eligibility-for-tax-support-for-business-investments**.

How to calculate your CCA

To calculate your current year deduction for CCA, and any recaptured CCA and terminal losses, use Area A of your form. Include only the rental property part.

If you want to claim CCA under the immediate expensing rules and you are part of an associated group of EPOPs, fill in Area G before completing Area A to calculate the immediate expensing limit allocated to you.

You may have acquired or disposed of buildings or equipment during your fiscal period. If so, fill in the applicable Area B, C, D or E, whichever applies, before completing Area A.

Note
Even if you are not claiming a deduction for CCA for 2024, fill in the appropriate areas of the form to show any additions or disposals during the year. For more information on how to fill in all these areas, see the following section.

Area A – Calculation of capital cost allowance (CCA) claim

Column 1 – Class number

Enter in this column the class numbers of your properties. If this is the first year you are claiming CCA, see "Column 3 – Cost of additions in the year" on page 33 before completing column 1. If you claimed CCA last year, you can get the class numbers of your properties from last year's form.

We discuss the more common types of depreciable properties in "Classes of depreciable property" on page 25.

Separate classes

Generally, if you own several properties in the same CCA class, combine the capital cost of all these properties into one class. Then enter the total of the combined properties that are represented under one class in Area A's calculation table. If you acquired a rental property after 1971 and it had a capital cost of $50,000 or more, you have to put it in a separate class. Calculate your CCA separately for each rental property that is in a separate class. Do this by listing the rental property on a separate line in Area A's calculation table. For CCA purposes, the capital cost is the part of the price that relates to the building only.

When you dispose of a rental property that you have set up in a separate class in Area A's calculation table, you base any CCA recapture or terminal loss only on the disposition of that rental property. When calculating these amounts, do not consider any other rental property you own that has the same class number as the rental property you disposed of. For more information on recapture of CCA and terminal losses, see "Column 7 – UCC after additions and dispositions" on page 35.

For more information about CCA for rental properties with a capital cost of over $50,000, see Interpretation Bulletin IT-274, Rental Properties – Capital Cost of $50,000 or More.

Column 2 – Undepreciated capital cost (UCC) at the start of the year

If this is the first year you are claiming CCA, skip this column. Otherwise, enter in this column the UCC for each class at the end of last year. Enter these amounts from column 19 from your 2023 form.

From your UCC at the start of 2024, subtract any investment tax credit (ITC) you claimed or were refunded in 2023. Also, subtract any 2023 ITC you carried back to a year before 2023.

In 2023, you may have received a GST/HST input tax credit for a passenger vehicle you used less than 90% of the time for your rental operation. In this case, subtract the amount of the credit you got from your 2024 opening UCC. See "Grants, subsidies and other incentives or inducements" on page 38.

Note
In 2024, you may be claiming, carrying back or getting a refund of an ITC. If you still have depreciable property in the class, you have to adjust, in 2025, the UCC of the class to which the property belongs. To do this, subtract the amount of the credit from the UCC at the start of 2025. When there is no property left in the class, report the amount of the ITC as income in 2025.

Column 3 – Cost of additions in the year

If you acquire or make improvements to depreciable property in the year, we consider them to be additions to the class in which the rental property belongs. You should:

- fill in Areas B and C on your form, if applicable, as explained on page 33.
- for each class, enter in column 3 of Area A's calculation table the amounts from column 5 for each class in Areas B and C

If a chart asks for the personal part of a property, this refers to the part you use personally, separate from the part you use for rental operations. For example, if you use 25% of the building you live in for your rental operations, your personal part is the remaining 75%.

Do not include the value of your labour in the cost of a rental property you build or improve. Include the cost of surveying or valuing a rental property you acquire. Remember that a rental property usually has to be **available for use** (see "Definitions" on page 6) in the year before you can claim CCA.

If you received insurance proceeds to reimburse you for the loss or destruction of depreciable property, enter the amount you spent to **replace** the property in column 3 of Area A, as well as in Area B or C, whichever applies.

Include the amount of insurance proceeds considered as proceeds of disposition (see "Definitions" on page 6) in column 5 of Area A, as well as in Area D or E, whichever applies.

If you replaced lost or destroyed property, special rules for replacement property may apply. The replacement property must be acquired within two years of the end of the tax year in which it was lost or destroyed. For more information, see Income Tax Folio S3-F3-C1, Replacement Property.

To find out if any of these special situations apply, see "Special situations" on page 46.

Area B – Equipment additions in the year

List the details of all equipment or other property you acquired or improved in the current tax year. Group them into the applicable classes, and put each class on a separate line. Equipment includes appliances (such as a washer and dryer), maintenance equipment (such as a lawn mower or a snow blower) and other property (such as furniture and some fixtures) you acquire to use in your rental operation.

Enter on line 9925 the total rental portion of the cost of the equipment or other property. See also "Grants, subsidies and other incentives or inducements" on page 38.

Area C – Building additions in the year

List the details of all buildings you acquired or improved in 2024. Group the buildings into the applicable classes and put each class on a separate line.

Enter on line 9927 the total rental portion of the cost of the buildings. The cost includes the purchase price of the building, and any related expenses you should add to the capital cost of the building, such as legal fees, land transfer taxes and mortgage fees.

Land

Generally, land is not a depreciable property. Therefore, you cannot claim CCA on its cost. If you acquire a rental property that includes both land and a building, enter in column 3 of Area C only the cost that relates to the building. To calculate the building's capital cost, you have to split any fees that relate to buying the rental property between the land and the building. Related fees may include legal and accounting fees.

Calculate the part of the related fees you can include in the capital cost of the building as follows:

(building value ÷ total purchase price) × legal, accounting or other fees = the part of the fees you can include in the building's cost

You do not have to split a fee if it relates only to the land, or only to the building. In this case, you would **add** the amount of the fee to the cost to which it relates; either the land or the building.

Area F – Land additions and dispositions in the year

Enter on line 9923 the total cost of acquiring land in 2024. The cost includes the purchase price of the land plus any related expenses you should add to the capital cost of the land, such as legal fees, land transfer taxes and mortgage fees.

You cannot claim CCA on land. Do **not** enter this amount in column 3 of Area A.

Column 4 – Cost of additions from column 3 that are DIEPs

For each class, enter in column 4 the amount that you designate as immediate expensing property (see definition on page 7) from the total cost included in column 3. The cost of DIEPs is included in column 3 in the total cost of additions in the year and shown separately in column 4. If you are part of an associated group of EPOPs, fill in Area G of your form as explained below.

Remember that property has to be **available for use** in the year before you can claim CCA.

Area G – Agreement between associated eligible persons or partnerships (EPOPs)

Fill in this area if you are associated in the tax year with one or more EPOPs and you entered into an agreement with them under subsection 1104(3.3) of the Income Tax Regulations. The agreement assigns a percentage to one or more of you in the tax year so you can share the immediate expensing limit. For this agreement, individuals and partnerships are considered to be corporations.

List in the table the names of the associated EPOPs, including your name, their identification number and the percentage the agreement assigned to each of them.

Calculate the immediate expensing limit allocated to you by multiplying $1.5 million by the percentage assigned to you in column 3. Enter the result on amount iii of Form T776.

If the total percentage assigned in column 3 exceeds 100%, the immediate expensing limit of the associated group is zero.

Column 5 – Proceeds of dispositions in the year

Enter the details of your 2024 dispositions on your form, as explained below.

If you disposed of depreciable property in the current tax year, you should:

- fill in, for each class, Areas D and E, if applicable
- enter in column 5 of the calculation table in Area A the amounts for each class from column 5 of Areas D and E

When completing the tables in Areas D and E, enter in column 3 of the table the **lesser of**:

- your proceeds of disposition **minus** any related expenses
- the capital cost of the rental property

If a chart asks for the personal part of a property, this refers to the part you use personally, separate from the part you use for rental operations. For example, if you use 25% of the building you live in for rental operations, your personal part is the other 75%.

If you received insurance proceeds to reimburse you for the loss or destruction of depreciable property, enter the amount you paid to **replace** the property in column 3 of Area A, as well as in Area B or C, whichever area applies.

Include the amount of insurance proceeds considered as **proceeds of disposition** in column 5 of Area A, as well as in column 4 of Area D or E, whichever applies. This could include compensation you receive for property that someone destroys, expropriates, steals or damages.

If you dispose of a property for proceeds that are more than it cost you to acquire it (or you receive insurance proceeds for a property that was lost or destroyed that exceed the cost of the property), you will have a capital gain and possibly a recapture of CCA. You may be able to postpone or defer recognition of a capital gain or recapture of CCA in computing income if, among other things, the property disposed of is replaced within certain specified time limits. For more information, see “Replacement property” on page 41 and Income Tax Folio S3-F3-C1, Replacement Property.

Special rules may apply if you dispose of a building for less than both its UCC and your capital cost. If this is the case, see “Special rules for disposing of a building in the year” in Guide T4002. If you dispose of a depreciable property for more than its cost, you will have a capital gain. For more information on capital gains, see Chapter 6 of Guide T4002. You cannot have a capital loss when you sell depreciable property. However, you may have a terminal loss. For an explanation of terminal losses, see “Column 7 – UCC after additions and dispositions” on page 35.

For more information on proceeds of disposition, see Income Tax Folio S3-F4-C1, General Discussion of Capital Cost Allowance.

Area D – Equipment dispositions in the year

List the details of all equipment (including motor vehicles) you disposed of in your 2024 fiscal period. Group the equipment into the applicable classes and put each class on a separate line. Enter on line 9926 the total rental portion of the proceeds of disposition of the equipment.

Area E – Building dispositions in the year

List all buildings and leasehold interests you disposed of in the current tax year. Group the buildings and leasehold interests into the applicable classes, and put each class on a separate line. Enter on line 9928 the total rental portion of the proceeds of disposition of the buildings and leasehold interests.

Area F – Land additions and dispositions in the year

Enter on line 9924 the total of all amounts you received or will receive for disposing of land in the fiscal period.

Column 6 – Proceeds of dispositions of DIEP

Enter in column 6 the total proceeds of disposition from column 5 of any DIEP that was acquired in the year.

Proceeds of dispositions of DIEP are included in column 5 in the total proceeds of dispositions in the year and shown separately in column 6.

Column 7 – UCC after additions and dispositions

The UCC amount for column 7 is the initial UCC amount at the start of the year in column 2 **plus** the cost of additions in column 3 **minus** the proceeds of dispositions in column 5.

You cannot claim CCA when the amount in column 7 is:

- negative (see "Recapture of CCA" below)
- positive and you do not have any property left in that class at the end of your 2024 fiscal period (see "Terminal loss" below)

In either case, enter "0" in column 21.

Recapture of CCA

If the amount in column 7 is negative, you have a recapture of CCA. Enter your recapture amount on line 9947, "Recaptured capital cost allowance," in Part 4 of Form T776.

A recapture of CCA can happen if the proceeds from the sale of depreciable rental property are more than the total of the following amounts:

- the UCC of the class at the start of the period
- the capital cost of any new additions during the period

A recapture of CCA can also occur, for example, when you get a government grant or claim an investment tax credit.

In some cases, you may be able to postpone a recapture of CCA. For example, you may sell a property and replace it with a similar one, someone may expropriate your property or you may transfer property to a corporation, a partnership or your child.

Terminal loss

If the amount in column 7 is positive and you no longer own any property in that class, you may have a terminal loss. More precisely, you may have a terminal loss when, at the end of a fiscal period, there is no longer any property in the class, but there is still an amount you have not deducted as CCA. You can usually subtract this terminal loss from your rental income in the year you disposed of the depreciable property. If the loss is more than your rental income, you can create a rental loss. Enter your terminal loss on line 9948, "Terminal loss."

For more information on recapture of CCA and terminal loss, see Income Tax Folio S3-F4-C1, General Discussion of Capital Cost Allowance.

> **Notes**
>
> If you dispose of a property that you used for both rental and personal use, you must calculate the allowable part of the recapture of CCA and terminal loss. For more information, see "Personal use of property" in Guide T4002.
>
> The rules for recapture of CCA and terminal loss do not apply to passenger vehicles in Class 10.1 unless they are DIEPs. To calculate your CCA claim, see the comments in "Column 16 – Base amount for CCA."

Column 8 – UCC of DIEP

Enter in column 8 the cost of DIEP additions from column 4 **minus** the proceeds of dispositions of DIEP from column 6. If the result of column 4 **minus** column 6 exceeds the amount from column 7, enter in column 8 the amount from column 7. If the amount from column 7 is negative, enter "0."

Since immediate expensing is only available for DIEP that becomes available in the year, there can be no UCC of DIEP from the previous year.

Column 9 – Immediate expensing amount for DIEPs

Enter the immediate expensing amount you choose to apply to each class.

The total immediate expensing amount must be equal to or less than the least of the following amounts:

- $1.5 million, if you are not associated with any other EPOP in the year
- the UCC of the DIEP before any CCA deductions in the year
- the amount of income, if any, before any CCA deductions, earned from the source of income that is a property for which the relevant DIEP is used for the tax year

Column 10 – Cost of remaining additions after immediate expensing

Column 10 represents the cost of additions after applying the immediate expensing deduction to DIEP. It includes the cost of properties that are not immediate expensing property, are immediate expensing property not designated, or are DIEPs that exceed the immediate expensing deduction for the fiscal period for each class.

To calculate this amount, **subtract** the immediate expensing amount in column 9 from the total cost of additions in column 3.

Column 11 – Cost of remaining additions from column 10 that are AIIPs or ZEVs

For each class, enter from column 10 the total cost of properties that are accelerated investment incentive properties (AIIPs) or properties included in Classes 54 to 56 that you acquired during the year. They are included in column 10 and shown separately in column 11.

An AIIP generally means a property, other than zero-emission vehicles and automotive equipment included in Classes 54 to 56, acquired after November 20, 2018, and that becomes available for use before 2028.

If you did not acquire any AIIPs, ZEVs or Class 56 properties, enter "0" in this column.

For more details, see "Class 54 (30%) and Class 55 (40%) – Zero-emission vehicles" on page 30, "Class 56 (30%)" on page 31 and the "Accelerated investment incentive property" definition on page 6.

Column 12 – Remaining UCC after immediate expensing

Column 12 represents the remaining portion of UCC after applying the immediate expensing deduction. The remaining portion of UCC will be used to calculate the regular CCA deduction.

Subtract the amount in column 9 from the amount in column 7 and enter the difference.

Column 13 – Proceeds of dispositions available to reduce additions of AIIPs and ZEVs

This column calculates the adjustments under certain circumstances to the additions for the year where there is also a disposition in the year.

When an AIIP and a non-AIIP of the same class are purchased during the year and a disposition occurs, the disposition first reduces the UCC of the non-AIIP before reducing the UCC of the AIIP.

To determine which part of your proceeds of dispositions, if any, will reduce the cost of your AIIP, ZEV or Class 56 additions, take the proceeds of disposition in column 5 **minus** the cost of remaining additions in the year in column 10 **plus** the cost of remaining additions of AIIPs, ZEVs or Class 56 properties in column 11. If the result is negative, enter "0."

If you did not acquire any AIIPs, ZEVs or Class 56 properties, you do not need to use this column.

Column 14 – UCC adjustment for current-year additions of AIIPs and ZEVs

This column calculates the enhanced UCC amount used to determine the additional CCA for AIIPs, ZEVs or Class 56 properties.

For this column, **reduce** the cost of AIIP, ZEV or Class 56 additions in column 11 by the proceeds of disposition available to reduce the AIIP, ZEV or Class 56 additions as calculated in column 13. **Multiply** the result by the following factor:

- 1/2 for Classes 43.2 and 53
- 7/8 for Class 55
- 1 1/2 for Classes 43.1, 54 and 56
- 0 for the remaining AIIPs

These factors will change for properties that become available for use after 2025 and the incentive is completely phased out for properties that become available for use after 2027.

If you did not acquire any AIIPs, ZEVs or Class 56 properties, enter "0" in this column.

Column 15 – Adjustment for current-year additions subject to the half-year rule

Generally, in the year you acquire or make additions to a property, you can usually claim CCA on half of your net additions. We call this the half-year rule. You calculate your CCA only on the net adjusted amount. For example, if before November 20, 2018, you acquired a property for $30,000, you would base your CCA claim on $15,000 ($30,000 × 50%) in the year you acquired the property. However, the half-year rule does not apply to AIIPs, ZEVs or Class 56 properties.

Calculate the net first-year additions that are subject to the half-year rule by taking the cost of remaining additions in column 10 **minus** AIIP, ZEV and Class 56 additions in column 11 **minus** proceeds of dispositions in column 5. Enter 50% of the result in column 15. If the result is negative, enter "0."

There are circumstances where the half-year rule does not apply. For example, in a **non-arm's length** (see "Definitions" on page 6) transaction you may buy depreciable property that the seller continuously owned from the day that is at least 364 days before the end of your 2024 fiscal period to the day the property was acquired. However, if you transfer personal property, such as a car or a personal computer, into your rental operation, the half-year rule applies to the particular property transferred.

Also, some properties are not subject to the half-year rule. Some examples are those in Classes 13, 14, 23, 24, 27, 34 and 52, as well as most of those in Class 12, such as small tools. The half-year rule **does not apply** when the available for use rules discussed on page 6 denies a CCA claim until the second tax year after you acquire the property.

For more information on the special rules that apply to Class 13, see Interpretation Bulletin IT-464, Capital Cost Allowance – Leasehold Interests. For more information on the half-year rule, see Income Tax Folio S3-F4-C1, General Discussion of Capital Cost Allowance.

Column 16 – Base amount for CCA

The base amount for CCA is the remaining UCC amount after additions, dispositions and the current year adjustments. This is the amount in column 12 **plus** the amount in column 14 **minus** the amount in column 15. The CCA rate is applied to this amount.

For a Class 10.1 vehicle you disposed of in your 2024 fiscal period, you may be able to claim 50% of the CCA that would be allowed if you still owned the vehicle at the end of your 2024 fiscal period. This is known as the **half-year rule on sale**.

You can use the half-year rule on sale if, at the end of your 2023 fiscal period, you owned the Class 10.1 vehicle you disposed of in 2024. If this applies to you, enter 50% of the amount from column 2 (for Class 10.1 vehicles) in column 16.

Column 17 – CCA rate (%)

Enter the prescribed CCA rate (percentage) for each property class you have listed in column 1.

For more information on certain kinds of property, see "Classes of depreciable property" on page 25.

Column 18 – Available CCA for the year

In column 18, enter the available CCA for 2024. This is the CCA amount that you can claim if you did not use your depreciable properties to earn income from a non-compliant short-term rental. In Area A, calculate the maximum amount for column 18 by multiplying the amount in column 16 by the amount in column 17, then adding the amount in column 9.

Column 19 – Non-compliant amount of CCA

If you used depreciable properties for which you are claiming CCA to earn income from a short-term rental (see "Definitions" on page 6), you should:

- fill in, for each class, Chart B, if applicable
- enter in column 19 of Area A the amounts for each class from column 7 of Chart B

Chart B – Non-compliant amount of CCA for short-term rentals

List the details of all the properties you used for your short-term rentals. Group the properties in the applicable classes. Then, divide the UCC of the properties of each class between each short-term rental for which you used the properties and put the amount of each class for each short-term rental on a separate row. Each row should therefore include the costs of properties of only one class and only one short-term rental.

Column 20 – CCA claim for the year

In column 20, enter the CCA you want to deduct for 2024. You can claim the CCA for the year up to the maximum allowed. Calculate the maximum amount for column 20 by **subtracting** the non-compliant amount in column 19 from the available CCA in column 18.

In your first year of rental activities, you may have to prorate your CCA claim.

To get your CCA yearly total, **add** up all amounts in column 20. Enter this result on line 9936, "Total capital cost allowance claim for the year." If you are a co-owner, enter only your share of the CCA. To find out how to calculate your CCA claim if you are using the property for both rental and personal use, see "Personal use of property" in Guide T4002.

Column 21 – UCC at the end of the year

The final result in column 21 is the UCC at the end of the year. This is the result of the UCC after additions and dispositions in column 7, **minus** the amount for CCA claimed for the year in column 20. The amount in column 21 is the starting UCC balance you will use when you calculate your CCA claim next year. Next year, enter this amount in column 2. If you have a terminal loss or a recapture of CCA, enter "0" in column 21.

The example at the end of this chapter sums up CCA.

Special situations

This section describes the special situations and how the tables in Areas B, C, D and E help break down and display the calculations for these situations.

Changing from personal to rental use

If you bought a property for personal use and then changed the use to a rental in your rental operation in the current tax year, there is a change in use of the property. You need to determine the capital cost of the property at the moment of this change.

If the fair market value (FMV) of a depreciable property (such as equipment or a building) is less than its original cost when you change its use, the amount you put in column 3 of Area B or C is the FMV of the property (excluding the land value if the property includes land and a building). If the FMV is more than the original cost of the property when you change use, use the following chart to determine the amount to enter in column 3.

Note
We consider you to have acquired the land for an amount equal to the FMV when you changed its use. Enter this amount on line 9923, "Land additions and dispositions in the year," in Area F.

Capital cost calculation – Change in use

Actual cost of the property				$ ________	1
FMV of the property	$ ________	2			
Amount from line 1	$ ________	3			
Line 2 **minus** line 3 (if negative, enter "0")	$ ________	4			
Enter all capital gains deductions claimed for the capital gains related to the depreciable property	$ ________		× 2	= $ ________	5
Line 4 **minus** line 5 (if negative, enter "0")	$ ________		×1/2	= $ ________	6
Capital cost Line 1 **plus** line 6				$ ________	7

Enter the capital cost of the property from line 7 in column 3 of Area B or C.

Grants, subsidies and other incentives or inducements

You should subtract from the applicable expense any rebate, grant or assistance you received. Enter the net expense on the appropriate line of your form.

When you receive a grant, subsidy or rebate from a government or a government agency to buy depreciable property, subtract the amount of the grant, subsidy or rebate from the property's capital cost. Do this before you enter the capital cost in column 3 of Area B or C. If you receive a grant, subsidy or rebate for a property after the year you disposed of the property, subtract the amount of the grant, subsidy or rebate from the UCC of the class in which the property was included.

If you made a repayment of a grant, subsidy or rebate received for a property that you were legally required to make, add the amount you repaid to the property's capital cost. Do this before you enter the capital cost in column 3 of Area B or C. If you repaid this amount after the year you disposed of the property, add the amount to the UCC of the class in which the property was included.

For example, you buy a rental property at a cost of $200,000 ($50,000 for the land and $150,000 for the building) and receive a $50,000 grant. The $50,000 grant is split in a similar way between the land and building. The total cost of the purchase is reduced to $150,000: $37,500 for the land and $112,500 for the building. Enter the reduced capital cost in column 3 of Area B or C. For more information, see Interpretation Bulletin IT-273, Government Assistance – General Comments.

In this case, you can include the amount in your rental income or you can deduct the amount from the capital cost of the rental property. You may get an incentive from a non-government agency to buy depreciable property. For example, you may receive a tax credit that you can use to reduce your income tax payable.

If the purchase price of your property was reduced due to poor quality or for other reasons, see Income Tax Folio S3-F4-C1, General Discussion of Capital Cost Allowance, for more information about how to calculate your capital cost.

Non-arm's length transactions

When you acquire rental property (depreciable property) in a **non-arm's length** (see "Definitions" on page 6) transaction, there are special rules for determining the property's capital cost. These special rules do not apply if you acquire the property because of someone's death.

You can acquire depreciable property in a non-arm's length transaction from:

- an individual resident in Canada
- a partnership with at least one partner who is an individual resident in Canada
- a partnership with at least one partner who is another partnership

If you pay **more** for the rental property than the seller paid for it, calculate the cost as follows:

Capital cost calculation
Non-arm's length transaction – Resident of Canada

The seller's cost or capital cost			$ ________	1
The seller's proceeds of disposition	$ ________	2		
Amount from line 1	$ ________	3		
Line 2 **minus** line 3 (if negative, enter "0")	$ ________	4		
Enter any capital gains deduction claimed for the capital gains related to the depreciable property	$ ________	× 2	= $ ________	5
Line 4 **minus** line 5 (if negative, enter "0")	$ ________	× 1/2	= $ ________	6
Capital cost Line 1 **plus** line 6			$ ________	7

Enter the amount from line 7 in column 3 of either Area B or C, whichever applies. Do not include the cost of the related land. Include the cost of the related land on line 9923, "Total cost of all land additions in the year," in Area F of your form.

You can also acquire depreciable property in a non-arm's length transaction from:

- a corporation
- an individual who is not a resident in Canada
- a partnership with no partners who are individuals resident in Canada or with no partners that are other partnerships

If you pay **more** for the rental property than the seller paid for it, calculate the capital cost as follows:

Capital cost calculation
Non-arm's length transaction – Non-resident of Canada

The seller's cost or capital cost			$ ________	1
The seller's proceeds of disposition	$ ________	2		
Amount from line 1	$ ________	3		
Line 2 **minus** line 3 (if negative, enter "0")	$ ________	× 1/2	= $ ________	4
Capital cost Line 1 **plus** line 4			$ ________	5

Enter the amount from line 5 in column 3 of either Area B or C, whichever applies. Do not include the cost of the related land. Include the cost of the related land on line 9923, "Total cost of all land additions in the year," in Area F of your form.

If you acquire depreciable property in a non-arm's length transaction and pay **less** for it than the seller paid, your capital cost is the same amount as the seller paid. The difference between what you paid and what the seller paid is considered to be deducted as CCA. Enter the amount you paid in column 3 of Area A. Enter the same amount in Area B or C, whichever applies.

Example
Teresa bought a refrigerator from her father, Roman, for $400 to use in her rental operation. Roman paid $1,000 for the refrigerator and was using it in his rental operations. Since the amount Teresa paid is **less** than the amount Roman paid, we consider Teresa's cost to be $1,000. We also consider that Teresa has deducted CCA from the amount of $600 in the past ($1,000 – $400).

- In Area B, Teresa enters $1,000 in column 3, "Total cost."
- In Area A, she enters $400 in column 3, "Cost of additions in the year," as the addition for the current tax year.

For more information on non-arm's length transactions, see Income Tax Folio S1-F5-C1, Related Persons and Dealing at Arm's Length.

Selling your rental property

If you sell a rental property for more than it cost, you may have a capital gain. List the dispositions of all your rental properties on Schedule 3, Capital Gains or Losses. For information on how to calculate your taxable capital gain, see Guide T4037, Capital Gains.

Note
If you owned the property for less than 365 consecutive days before the disposition, you may have a flipped property. For more information on flipped property and how to report it, see "Flipped property rules" on page 44.

If you are a member of a partnership that has a capital gain, the partnership will allocate part of that gain to you. The gain will show on the partnership's financial statements or in box 151 of your T5013 slip. Report the gain on line 17400 of Schedule 3, Capital Gains or Losses.

Note
You cannot have a capital loss when you sell depreciable property. However, you can have a terminal loss, see "Column 7 – UCC after additions and dispositions" on page 35.

Disposing of a building

If you disposed of a building in the current tax year, special rules may apply, making the proceeds of disposition an amount other than the actual proceeds of disposition. This happens when you meet **both** of the following conditions:

- you disposed of the building for an amount less than both its cost amount, as calculated below, and its capital cost to you
- you, or a person with whom you do not deal at **arm's length** (see "Definitions" on page 6), owned the land the building is on, or the land next to it, which was necessary for the building's use

To calculate the **cost amount**:

- if the building was the only property in the class, the cost amount is the UCC of that class before you disposed of the building
- if more than one property is in the same class, you have to calculate the cost amount of each building as follows:

(capital cost of the building ÷ capital cost of all property in the class not previously disposed of) × UCC of the class = cost amount of the building

Note
If a building acquired in a non-arm's length transaction was previously used for something other than producing income, the capital cost of the property will need to be recalculated to determine the cost amount of the building.

If you disposed of a building under these conditions and you or a person with whom you do not deal at arm's length disposed of the land in the same year, calculate your deemed proceeds of disposition as shown in Calculation A on the next page.

If you or a person with whom you do not deal at arm's length did not dispose of the land in the same year as the building, calculate your deemed proceeds of disposition for the building as shown in Calculation B.

Calculation A
Land and building disposed of in the same year

FMV of the building when you disposed of it	$ 1			
FMV of the land just before you disposed of it	$ 2			
Line 1 **plus** line 2	$		$ 3	
Seller's adjusted cost base of the land	$ 4			
Total capital gains (without reserves) from any disposition of the land (such as a change in use) by you, or by a person not dealing at arm's length with you, in the three-year period before you disposed of the building, to you or to another person not dealing at arm's length with you	$ 5			
Line 4 **minus** line 5 (if negative, enter "0")	$ 6			
Line 2 or line 6, (whichever amount is **less**)		–	$ 7	
Line 3 **minus** line 7 (if negative, enter "0")		=	$ 8	
Cost amount of the building just before you disposed of it	$ 9			
Capital cost of the building just before you disposed of it	$ 10			
Line 9 or line 10, whichever amount is **less**	$ 11			
Line 1 or line 11, whichever amount is **more**			$ 12	
Deemed proceeds of disposition of the building				
Line 8 or line 12, whichever amount is **less** (enter the amount from line 13 in column 3 of Area E and include it in column 5 of Area A)			$ 13	
Deemed proceeds of disposition of the land				
Proceeds of disposition of the land and building			$ 14	
Amount from line 13			$ 15	
Line 14 **minus** line 15 (enter this amount on line 9924 of Area F)			$ 16	

If you have a terminal loss on the building, include it on line 9948, "Terminal loss."

Calculation B
Land and building disposed of in different years

Cost amount of the building just before you disposed of it	$ 1			
FMV of the building just before you disposed of it	$ 2			
Line 1 or line 2, whichever amount is **more**				$ 3
Actual proceeds of disposition, if any				$ 4
Line 3 **minus** line 4				$ 5
Amount from line 5	$	× 1/2	=	$ 6
Amount from line 4				$ 7
Deemed proceeds of disposition for the building				
Line 6 **plus** line 7 (enter this amount in column 3 of Area E and include it in column 5 of Area A)				$ 8

If you have a terminal loss on the building, include it on line 9948, "Terminal loss."

Usually, you can deduct 100% of a terminal loss, but only 50% of a capital loss. Calculation B makes sure you use the same percentage to calculate both a terminal loss on a building and a capital loss on land. As a result of this calculation, you **add** 50% of the amount from line 5 to the actual proceeds of disposition from the building. For more information, see "Terminal loss" on page 35.

Replacement property

In some cases, you can postpone or defer including a capital gain or recapture of CCA in calculating income. Your property might be stolen, destroyed or expropriated, and you replace it with a similar one. To defer reporting the gain or recapture of CCA, you (or a person related to you) must acquire the replacement property within the specified time limits and use the new property for the same or similar purpose.

For more information, see Income Tax Folio S3-F3-C1, Replacement Property.

Note
The period beginning on March 15, 2020, and ending on March 12, 2022, is not counted in the calculation of the specified time limits.

You can also defer a capital gain or recapture of CCA when you transfer rental property to a corporation or a partnership. For more information, see:

- Information Circular IC76-19, Transfer of Property to a Corporation Under Section 85
- Interpretation Bulletin IT-291, Transfer of Property to a Corporation Under Subsection 85(1)
- Interpretation Bulletin IT-378, Winding-up of a Partnership
- Interpretation Bulletin IT-413, Election by Members of a Partnership Under Subsection 97(2)

Example
During the current tax year, Paul bought a house to use for rental purposes. For CCA purposes, the building is classified as Class 1 with a 4% rate. It is his only rental property. The total cost was $95,000 (the sum of the $90,000 total purchase price plus $5,000 total expenses connected with the purchase). The details are as follows:

Building value (Class 1)		$ 75,000
Land value	+	$ 15,000
Total purchase price	=	**$ 90,000**
Expenses connected with the purchase		
Legal fees		$ 3,000
Land transfer taxes	+	$ 2,000
Total fees	=	**$ 5,000**

Paul's rental activity is reported on a December 31 year-end basis. Paul's rental income was $6,000 and his rental expenses were $4,900. Therefore, his net rental income before deducting CCA was $1,100 ($6,000 – $4,900). Paul wants to deduct as much CCA as he can.

Before Paul can fill in his CCA table in Area A, he has to calculate the capital cost of the building. Since land is not depreciable property, he has to calculate the part of the expenses connected with the purchase that relates only to the building. To do this, he has to use the following formula:

Building value ÷ Total purchase price × Expenses = Part of the fees Paul can include in the building's cost

$75,000 ÷ $90,000 × $5,000 = $4,166.67

This $4,166.67 represents the part of the $5,000 in legal fees and land transfer taxes that relates to the purchase of the building. The remaining $833.33 relates to the purchase of the land. Therefore, the capital cost of the building is:

Building value (Class 1)		$ 75,000.00
Related expenses	+	$ 4,166.67
Capital cost of the building	=	**$ 79,166.67**

Paul enters $79,166.67 in column 3 of Area C and $15,833.33 ($15,000 + $833.33) on line 9923 of Area F as the capital cost of the land.

Note
Paul did not own rental property before the current year. Therefore, he has no UCC to enter in column 2 of Area A.

Paul acquired his rental property during the current year. Therefore, he is subject to the half-year rule explained in "Column 15 – Adjustment for current-year additions subject to the half-year rule" on page 36.

His net rental income before CCA is $1,100. Paul cannot claim CCA for more than $1,100 because he cannot use his CCA to create a rental loss (see "Limits on CCA" on page 25). This is the case even though he would otherwise be entitled to claim $1,583.33 ([$79,166.67 × 50%] × 4%).

Chapter 5 – Principal residence

When you sell your home, you may realize a capital gain. If the property was used solely as your principal residence for every year you owned it, you do not have to pay tax on the gain. If at any time during the period you owned the property, it was not your principal residence, or used solely as your principal residence, you may have to pay tax on all or part of the capital gain.

If you sold property in 2024 that was, at any time, your principal residence, you must report the sale on Schedule 3, Capital Gains or Losses, in 2024, and Form T2091(IND), Designation of a Property as a Principal Residence by an Individual

(Other Than a Personal Trust). See Schedule 3, Form T2091(IND) and Guide T4037, Capital Gains, for additional information on how to report the disposition of your principal residence.

If you want more information after reading this chapter, see Income Tax Folio S1-F3-C2, Principal Residence.

Find out what your principal residence is

Your principal residence can be any of the following types of housing units:

- a house
- a cottage
- a condominium
- an apartment in an apartment building
- an apartment in a building such as a duplex or triplex
- a trailer, mobile home or houseboat

A property qualifies as your principal residence, for any year, if it meets **all** of the following conditions:

- it is a housing unit, a leasehold interest in a housing unit or a share of the capital stock of a co-operative housing corporation you acquire only to get the right to inhabit a housing unit owned by that corporation
- you own the property alone or jointly with another person
- you, your current or former spouse or common-law partner, or any of your children lived in it at some time during the year
- you designate the property as your principal residence

The land on which your home is located can be part of your principal residence. Usually, the amount of land that you can consider as part of your principal residence is limited to one-half hectare (1.24 acres). If you can show that you need more land to use and enjoy your home, you can consider more than 1.24 acres as part of your principal residence. For example, this may happen if the minimum lot size imposed by a municipality at the time you bought the property is larger than one half hectare.

Designating a principal residence

You designate your home as your principal residence when you sell or are considered to have sold all or part of it. You can designate your home as your principal residence for the years that you own and use it as your principal residence. However, in some situations you may choose not to designate your home as your principal residence for one or more of those years. For more information, see Form T2091(IND), Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust), and Form T1255, Designation of a Property as a Principal Residence by the Legal Representative of a Deceased Individual.

Number of principal residences you can designate

For years before 1982, more than one housing unit per family can be designated as a principal residence. Therefore, a husband and wife can designate different principal residences for these years. However, a special rule applies if members of a family designate more than one home as a principal residence. For more information, see Income Tax Folio S1-F3-C2, Principal Residence.

For 1982 and later years, you can only designate one home as your family's principal residence for each year. For more information, see Income Tax Folio S1-F3-C2, Principal Residence.

For 1982 to 2000, if you **had a spouse or were 18 or older**, your family included:

- you
- a person who throughout the year was your spouse (unless you were separated for the entire year under the terms of a court order or a written agreement)
- your children (other than a child who had a spouse during the year or who was 18 or older)

If you **did not have a spouse and were not 18 or older**, your family **also** included:

- your mother and father
- your brothers and sisters (who did not have spouses and were not 18 or older during the year)

For 1993 to 2000, since a spouse included a common-law spouse, common-law spouses could not designate different housing units as their principal residences for any of those years.

> **Note**
> If you elected to have your same-sex partner considered as your common-law partner for 1998, 1999 or 2000, then, for those years, your common-law partner also could not designate a different housing unit as his or her principal residence.

After the year 2000, the above definition applies except that the reference to "spouse" is replaced by "spouse or common-law partner." Neither spouses nor common-law partners (see "Definitions" on page 6) can designate different housing units as their principal residence.

Disposition of your principal residence

When you sell your home or when you are considered to have sold it, usually you do not have to pay tax on any gain from the sale. This is the case if the property was used solely as your principal residence for every year you owned it or for all years except one year, being the year in which you replaced your principal residence. If you sold your home in 2024 and it was your principal residence, you have to report the sale and designate the property on Schedule 3, Capital Gains or Losses, in 2024. In addition, you also have to fill in Form T2091(IND), Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust). Fill in only page 2 of Form T2091 if the property you sold was your principal residence for all the years you owned it, or for all years except one year, being the year in which you replaced your principal residence.

For the sale of a principal residence in 2024, we will only allow the principal residence exemption if you report the disposition and designation of your principal residence on your income tax return. If you forget to make this designation in the year of the disposition, it is very important to ask us to amend your income tax return for that year. The CRA can accept a late designation in certain circumstances, but a penalty may apply. For more information, see Guide T4037, Capital Gains.

If your home was **not** your principal residence for every year that you owned it, you have to report the amount of the capital gain on the property that relates to the years you did not designate it as your principal residence. To do this, fill in Form T2091(IND) (see the page 45). You are also required to fill in the applicable sections of Schedule 3 as indicated on page 1 of the schedule.

If only a part of your home qualifies as your principal residence and you used the other part to earn or produce income, you have to split the selling price and the adjusted cost base between the part you used for your principal residence and the part you used for other purposes, such as rental or business. You can do this by using square metres or the number of rooms, as long as the split is reasonable. Report on line 13800 of Schedule 3 only the gain on the part you used to produce income. For more information, see Income Tax Folio S1-F3-C2, Principal Residence. You are also required to fill in page 1 of Schedule 3 to report the sale of your principal residence.

There are certain situations in which we will consider the entire property maintains its nature as a principal residence in spite of the fact that you have used it for income producing purposes. However, **all** of the following conditions must be met:

- the income producing use is ancillary to the main use of the property as a residence
- there is no structural change to the property
- no capital cost allowance (CCA) is claimed on the property

This situation could occur, for example, where the property is used as a home daycare. For more information, see Income Tax Folio S1-F3-C2, Principal Residence.

If you sold more than one property in the same calendar year and each property was, at one time, your principal residence, you must show this by completing a separate Form T2091(IND) for each property to designate what years each was your principal residence and to calculate the amount of capital gain, if any, to report on line 15800 of Schedule 3, Capital Gains or Losses, in 2024.

For more information on how to report the capital gain resulting from the disposition of your principal residence, see Guide T4037, Capital Gains.

Flipped property rules

Starting January 1, 2023, if you owned a housing unit (including a rental property) located in Canada or held a right to acquire a housing unit (such as the rights acquired in assignment sales) located in Canada for less than 365 consecutive days before its disposition, the property is generally considered to be a flipped property, unless it was already considered to be part of your inventory.

Any gain from the disposition of a flipped property is **fully** taxable as business income and **not** as a capital gain. Any loss resulting from the disposition of a flipped property is deemed to be nil and **can't** be included in the calculation of your net business income. However, there are exceptions to these rules when the disposition occurs due to, or in anticipation of, certain life events. For more information on these new rules and the exceptions, see Guide T4037.

To determine if the flipped property rules apply to you, fill out page 2 of Schedule 3, Capital Gains or Losses.

Note
If the property is **not** considered a flipped property, whether the income from the disposition of the property should be treated as business income **or** as a capital gain depends on the specific details of the situation. If the disposition is considered:

- a capital gain, fill out Schedule 3
- business income, fill out Form T2125, Statement of Business or Professional Activities

For more information, see Guide T4037, Capital Gains.

Form T2091(IND), Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust), and Form T1255, Designation of a Property as a Principal Residence by the Legal Representative of a Deceased Individual

Use Form T2091(IND) to designate a property as a principal residence. This form will help you calculate the number of years that you can designate your home as your principal residence, and the part of the capital gain, if any, that you have to report. Fill in this form if you:

- sold, or were considered to have sold, your principal residence or any part of it
- granted someone an option to buy your principal residence or any part of it

Note
A legal representative of a deceased person (executor, administrator or a liquidator in Quebec) must use Form T1255, Designation of a Property as a Principal Residence by the Legal Representative of a Deceased Individual, to designate a property as a principal residence for the deceased.

If you or your spouse or common-law partner file Form T664 or Form T664 (Seniors)

Use Form T2091(IND) to calculate the capital gain if you sell, or are considered to have sold, a property for which you or your spouse or common-law partner previously filed Form T664 or Form T664 (Seniors), Election to Report a Capital Gain on Property Owned at the End of February 22, 1994, and:

- the property was your principal residence for 1994
- you are designating it in the current tax year as your principal residence for any year

Use Form T2091(IND)-WS, Principal Residence Worksheet, to calculate a reduction from the capital gains election. If the property was designated as a principal residence for the purpose of the capital gains election, you have to include those previous years it was designated in the current year.

Note
If, at the time of the election, the property was designated as a principal residence for any tax year other than 1994, you can choose to designate it again as your principal residence when you sell it or are considered to have sold it. If you choose to designate it again, you have to include those previously designated tax years as part of your principal residence designation in the current tax year.

If the property was not your principal residence for 1994 and you are not designating it in 2024 as your principal residence for any tax year, do not use Form T2091(IND) and Form T2091(IND)-WS to calculate your capital gain. Instead, calculate your capital gain, if any, in the regular way (proceeds of disposition minus the adjusted cost base and outlays and expenses).

Change in use

You can be considered to have sold all or part of your property even though you did not actually sell it.

For example, this is the case when:

- you change all or part of your principal residence to a rental property
- you change your rental property to a principal residence
- you stop using a property to earn or produce income

Every time you change the use of a property, you are considered to have sold the property at its fair market value (FMV) and to have immediately reacquired the property for the same FMV, unless you make an election as described on page 46. The resulting capital gain or capital loss (in certain situations) must be reported in the year the change of use occurs.

If the property was your principal residence for any year you owned it before you changed its use, you do not have to pay tax on any gain that relates to those years. You only have to report the gain that relates to the years your home was not your principal residence.

Note
Your home is personal-use property (see the definition on page 8) for your own use. If you have a loss when we consider you to have sold your home because of a change in use, you are not allowed to claim the loss.

Special situations

There are situations to which the change-in-use rules stated above do not apply. The following are some of the more common situations.

Changing all your principal residence to a rental property

When you change your principal residence to a rental property, you can make an election not to be considered as having started to use your principal residence as a rental property. This means you do not have to report any capital gain when you change its use. If you make this election, you cannot claim CCA on the property. Any income from a property, minus any applicable expenses, must be reported for tax purposes.

While your election is in effect, you can designate the property as your principal residence for up to four years, even if you do not use your property as your principal residence. You can only do this if you do not designate any other property as your principal residence for that same time period.

You can **extend** the four-year limit for an unlimited time if **all** of the following conditions are met:

- you live away from your principal residence because your employer, or your spouse's or common-law partner's employer, wants you to relocate
- you and your spouse or common-law partner are not related to the employer
- you return to your original home while you or your spouse or common-law partner are still with the same employer or before the end of the year after the year in which this employment ends, or you die during the term of employment
- your original home is at least 40 kilometres (by the shortest public route) farther than your temporary residence from your or your spouse's or common-law partner's new place of employment

If you make this election, there is no immediate effect on your tax situation when you move back into your residence. If you change the use of the property again and do not make this election again, any gain you have from the sale of the property is a capital gain and may be subject to tax.

To make this election, attach a letter signed by you, and send it with your income tax return. If you are filing your taxes electronically, send this letter to your tax centre. To find your tax centre, go to **canada.ca/cra-offices**. The letter must describe the property and state that you are making an election under **subsection 45(2)** of the Income Tax Act.

If you started to use your principal residence as a rental or business property in the year, you may want information on how you should report your business or property income. If so, see Guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income.

Changing all your rental property to a principal residence

When you change your rental property to a principal residence, you can elect to postpone reporting the disposition of your property until you actually sell it. However, you cannot make this election if you, your spouse or common-law partner, or a trust under which you or your spouse or common-law partner is a beneficiary has deducted CCA on the property for any tax year after 1984, and on or before the day you change its use.

This election generally applies to deemed disposition resulting in a capital gain. If you claimed CCA on the property before 1985, you have to include any recapture of CCA in your rental income. Include the income in the year the property use was changed:

- You **cannot** make this election if you or your spouse or common-law partner, or a trust under which you, your spouse or common-law partner is a beneficiary, has deducted CCA on the property for any tax year after 1984 and on or before the day you change its use.
- To make this election, attach a letter signed by you, and send it with your income tax return. If you are filing your return electronically, send the letter to your tax centre. To find the address for your tax centre, go to **canada.ca/cra-offices**. The letter should describe the property and state that you are making an election under **subsection 45(3)** of the Income Tax Act.
- You have to make this election by the earlier of the following dates:
  - 90 days after the date we ask you to make the election

– the date you have to file your income tax return for the year in which you sell the property

If you make this election, you can designate the property as your principal residence for up to four years before you occupy it as your principal residence.

Changing part of your principal residence to a rental property or vice versa

Before March 19, 2019, you could not elect to avoid the deemed disposition that occurs on a partial change in the use of a property. However, starting on March 19, 2019, depending on your situation, you can elect under **subsection 45(2)** or **45(3)** of the Income Tax Act that the deemed disposition that normally arises on a partial change in use of property not apply.

Even if you do not make the election, if you started to use part of your principal residence for rental or business purposes, the CRA usually considers you to have changed the use of that part of your principal residence unless all of the following conditions apply:

- your rental or business use of the property is relatively small in relation to its use as your principal residence
- you do not make any structural changes to the property to make it more suitable for rental or business purposes
- you do not deduct any CCA on the part you are using for rental or business purposes

Generally, if you do not meet all of the above conditions, you will have a deemed disposition of the portion of property that had the change of use, and immediately after, you will be deemed to have reacquired that portion of property. The proceeds of disposition and the cost of the reacquisition will be equal to the proportionate share of the FMV of the property, determined at that time. Additionally, in the year the partial change in use occurs, you can make a principal residence designation (for the portion of the property that had the change in use), by completing page 1 of Schedule 3, Capital Gains or Losses, and page 2 of Form T2091(IND), Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust).

Subsequently, when you actually sell the property you have to take all of the following actions:

- Split the selling price between the part you used for your principal residence and the part you used for rental or business purposes. The CRA will accept a split based on square metres or the number of rooms as long as the split is reasonable.
- Report any capital gain on the part you used for rental or business purposes. You can also make a principal residence designation for the portion of the property for which there was no change in use as your principal residence, by completing Schedule 3 and Form T2091(IND), in order to claim the principal residence exemption for that portion of the gain.

For more information, see "Real estate, depreciable property and other properties" in Guide T4037, Capital Gains.

Digital services

The CRA's digital services are fast, easy and secure!

My Account

My Account lets you view and manage your personal income tax and benefit information online.

Use My Account throughout the year to:

- view your benefit and credit information and apply for certain benefits
- view your notice of assessment or reassessment
- view uncashed cheques and request a replacement payment
- change your address, phone numbers, direct deposit information, marital status and information about children in your care
- manage notification preferences and receive email notifications when important changes are made to your account
- check your tax-free savings account (TFSA) contribution room, your registered retirement savings plan (RRSP) deduction limit and your first home savings account (FHSA) participation room
- track the progress of certain files and enquiries you have submitted to the CRA
- make a payment online to the CRA with the My Payment service, create a pre-authorized debit (PAD) agreement or create a QR code to pay in person at Canada Post for a fee (for more information on how to make a payment, go to **canada.ca/payments**)
- view and print your proof of income statement
- manage authorized representatives and authorization requests
- submit documents to the CRA
- submit an audit enquiry
- manage Multi-factor authentication settings

To sign in to or register for the CRA's digital services, go to:

- My Account, at **canada.ca/cra-sign-in-services**, if you are an individual
- Represent a Client, at **canada.ca/cra-sign-in-services**, if you are an authorized representative

Receive your CRA mail online

Set your correspondence preference to "Electronic mail" to receive email notifications when CRA mail, like your notice of assessment, is available in your account.

For more information, go to **canada.ca/cra-email-notifications**.

Electronic payments

Make your payment using:

- your Canadian bank or credit union's online banking, mobile app, or telephone service
- the CRA's My Payment service at **canada.ca/cra-my-payment** with your activated debit card from a participating Canadian bank or credit union with one of the following logos: Visa® Debit or Debit Mastercard® (does **not** include credit cards)

- pre-authorized debit (PAD) at **canada.ca/cra-sign-in-services** which lets you:
  - set up payments to the CRA from a Canadian chequing account on preset dates starting in five or more business days
  - pay an amount due, repay overpaid amounts, or make instalment payments
  - view your account history and modify, cancel or skip a payment (for more information on PAD, go to **canada.ca/pay-authorized-debit**)
- the "Proceed to pay" button in the "Accounts and payments" box of the "Overview" panel in My Account, or in the "Account balance and statement of account" or "Instalments" boxes of the "Accounts and Payments" panel in My Account
- your credit card, Interac e-transfer or PayPal through one of the third-party service providers **for a fee**

For more information, go to **canada.ca/payments**.

For more information

If you need help

If you need more information after reading this guide, go to **canada.ca/taxes** or call **1-800-959-8281**.

Direct deposit

Direct deposit is a fast, convenient and secure way to receive your CRA payments directly in your account at a financial institution in Canada. For more information and ways to enrol, go to **canada.ca/cra-direct-deposit** or contact your financial institution.

Forms and publications

The CRA encourages you to file your return electronically. If you need a paper version of the CRA's forms and publications, go to **canada.ca/cra-forms-publications** or call **1-800-959-8281**.

Electronic mailing lists

The CRA can send you an email when new information on a subject of interest to you is available on the website. To subscribe to the electronic mailing lists, go to **canada.ca/cra-email-lists**.

Tax Information Phone Service (TIPS)

For tax information by telephone, use the CRA's automated service, TIPS, by calling **1-800-267-6999**.

Teletypewriter (TTY) and Video Relay Service (Canada VRS) users

If you use a TTY for a hearing or speech impairment, call **1-800-665-0354**.

If you use the Canada VRS application, call **1-800-561-6393**.

If you use another **operator-assisted relay service**, call the CRA's regular telephone numbers instead of the TTY or Canada VRS numbers.

Formal disputes (objections and appeals)

You have the right to file an objection (or an appeal for the Canada Pension Plan or Employment Insurance) if you disagree with an assessment, determination or decision.

For more information about objections and related deadlines, go to **canada.ca/cra-file-objection**.

CRA service feedback program

Service complaints

You can expect to be treated fairly under clear and established rules, and get a high level of service each time you deal with the CRA. For more information about the Taxpayer Bill of Rights, go to **canada.ca/taxpayer-rights**.

You may provide compliments or suggestions, and if you are not satisfied with the service you received:

1. Try to resolve the matter with the employee you have been dealing with or call the telephone number provided in the correspondence you received from the CRA. If you do not have contact information for the CRA, go to **canada.ca/cra-contact**
2. If you have not been able to resolve your service-related issue, you can ask to discuss the matter with the employee's supervisor
3. If the problem is still not resolved, you can file a service-related complaint by filling out Form RC193, Service Feedback. For more information and to learn how to file a complaint, go to **canada.ca/cra-service-feedback**

If you are not satisfied with how the CRA has handled your service-related complaint, you can submit a complaint to the Office of the Taxpayers' Ombudsperson.

Reprisal complaints

If you have received a response regarding a previously submitted service complaint or a formal review of a CRA decision and feel you were not treated impartially by a CRA employee, you can submit a reprisal complaint by filling out Form RC459, Reprisal Complaint.

For more information, go to **canada.ca/cra-reprisal-complaints**.

Due dates

When a due date falls on a Saturday, Sunday or public holiday recognized by the CRA, your return is considered on time if the CRA receives it or if it is postmarked on or before the next business day.

For more information, go to **canada.ca/taxes-dates-individuals**.

Cancel or waive penalties and interest

The CRA administers legislation, commonly called the taxpayer relief provisions, that gives the CRA discretion to cancel or waive penalties and interest when taxpayers cannot meet their tax obligations due to circumstances beyond their control.

The CRA's discretion to grant relief is limited to any period that ended within 10 calendar years before the year in which a relief request is made.

For penalties, the CRA will consider your request only if it relates to a tax year or fiscal period ending in any of the 10 calendar years before the year in which you make your request. For example, your request made in 2024 must relate to a penalty for a tax year or fiscal period ending in 2014 or later.

For interest on a balance owing for any tax year or fiscal period, the CRA will consider only the amounts that accrued during the 10 calendar years before the year in which you make your request. For example, your request made in 2024 must relate to interest that accrued in 2014 or later.

Taxpayer relief requests can be made online using the CRA's My Account, My Business Account (MyBA) or Represent a Client digital services:

- **My Account**: After signing in, select "Accounts and payments," then "Request relief of penalties and interest."
- **MyBA or Represent a Client**: After signing in, on the overview page, select the appropriate program from the left menu and then select the account. Finally, select "Request relief of penalties and interest" from the right menu.

You can also fill out Form RC4288, Request for Taxpayer Relief – Cancel or Waive Penalties and Interest, and send it in one of the following ways:

- online using My Account: select "Submit documents" from the left menu; then select "Submit documents" again at the bottom of the next page; and then follow the instructions
- online using MyBA or Represent a Client: for a new case select "Submit documents" from the left menu; then select "No case or reference number?"; and finally, select "Request taxpayer relief – cancel or waive penalties and interest (Form RC4288)"
- by mail to the designated office, as shown on the last page of the form, based on your place of residence

For information on the "Submit documents online" service, go to **canada.ca/cra-submit-documents-online**.

For more details on the required supporting documents, relief from penalties and interest and other related forms and publications, go to **canada.ca/penalty-interest-relief**.