

CRA ON THE HUNT FOR HOUSE FLIPPERS

This month the CRA announced several new significant changes in regards to the taxation of the sale of residences. As a result of these changes, the CRA will now have new tools for going after individuals who renovate and sell homes for a profit (also known as “flippers”).

As is well known, when a residence is sold, the economic gain may be tax exempt. The relevant tax exemption provision may found at ss. 40(2)(b) of the *Income Tax Act*. The formula therein provides that the exemption applies where the test is satisfied and the property meets the definition of “principal residence”. Falling within the exemption is not as simple as “I sold my home or cottage”.

As part of the new changes, effective as of the 2016 tax filing, taxpayers will now have to report the sale of all residences. Previously, taxpayers only had to report residential sales which were not tax exempt. Now, even the sale of an exempt principal residence will have to be reported.

In addition, a proposed amendment to the Act will essentially allow the CRA to reassess at any point in the future if a taxpayer fails to report the sale of a residence. Currently, the CRA is unable to reassess individuals beyond 3 years unless they can establish grounds for an extension (e.g. a negligent misrepresentation).

In light of the above and other changes, it should be expected that the CRA will be aggressively going after potential house flippers. Of particular focus will likely be anyone in the construction industry who has sold 2 or more residences in the last 5 years.

If any of your clients are involved in a tax dispute with the CRA concerning the sale of a residence, our tax litigation would be pleased to assist in resolving the dispute. We routinely handle tax disputes, including objections and appeals before the Tax Court of Canada.

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