

# The Tax Break

## PRINCIPAL RESIDENCE EXEMPTION

### CHANGES TO REPORTING

On October 3, 2016, Minister of Finance Bill Morneau announced a number of measures to address **perceived abuses of the Principal Residence Exemption (PRE)**. The PRE essentially allows gains experienced upon the sale of a principal residence to be tax free. Here are some of the major changes.

#### Reporting the Sale of a Principal Residence

While the legislation has always required that property be designated as a principal residence, CRA has historically waived the requirement for any filings or disclosure where the entire gain was exempt due to the PRE. However, effective for sales of property eligible for the PRE occurring on January 1, 2016 and later, individuals will be required to **report the sale in** their personal income tax return. **Basic information** such as the year of acquisition, proceeds of disposition, and the address of the property must

be disclosed. This reporting may also be required where the property has not been sold but there is a deemed disposition. A deemed disposition may occur, for example, when a personal home is converted into something else, such as a rental property.

#### Late Designations

If the disposition is not properly and timely reported, the PRE may not be available. However, CRA does have the discretion to **accept a late designation**. If the late submission is accepted, CRA also has the option to levy a **penalty** (\$100 per month late, up to a maximum of \$8,000). The penalty may or may not be issued depending on the circumstances.

#### Extended Assessment Period

A further proposal would provide CRA with the authority to assess taxpayers **beyond the normal assessment limitation period** (generally 3 years) when the **disposition of real estate** is not



appropriately reported in the tax return. In other words, there would be **no time limit** for such an assessment. However, CRA's ability to reassess will be **limited to only the unreported disposition of the real property**.

Note that this extended reassessment period is not restricted to real estate used as a principal residence – most real estate applies. If the tax return is later amended to report the disposition, CRA's ability to reassess will end approximately three years after the adjustment or amendment is filed.

This proposal applies to taxation years that end on or after October 3, 2016.

**If disposing of any real estate, discuss with your advisor as to how this should be reported on your tax return.**

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### TAX SEASON'S GREETINGS!

It's personal tax season again! We look forward to seeing you when you bring in your tax information. For those of you who brought in your tax information before March 31, thank you! We will announce the winner of our Early Bird Draw in our next issue.

If you're still gathering your information together, our T1 checklist can be found on our website at <http://www.accountantsplus.ca/resources/>

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## TAXPAYER RELIEF

### FINANCIAL HARDSHIP

CRA may grant relief from penalties and interest in cases where the timely satisfaction of a tax obligation was not completed due to:

- extraordinary circumstances;
- actions of the CRA; or
- inability to pay or financial hardship.

CRA defines personal financial difficulties as a **financial insecurity or lack of what is necessary to meet basic living needs** (that is food, clothing, housing, and reasonable non-essential elements).

If a taxpayer is able to **repay the outstanding tax arrears, without having an undue impact on a lifestyle** of a relatively affluent Canadian taxpayer, CRA could reasonably deny a request for relief.

CRA has also noted that relief may be granted:

- when collection had been suspended due to an inability to pay and substantial interest has accumulated or will accumulate;
- when a taxpayer's demonstrated ability to pay requires an extended payment arrangement. Consideration may be given to waiving all or part of the interest for the period from when payments start until the amounts owing are paid, as long as the agreed payments are made on time and compliance with the Act is maintained.

In addition to financial hardship, some of the more common reasons why taxpayer relief may be granted include:

natural or human-made disaster; death/accident/serious illness/emotional or mental distress; or civil disturbance. If one of these situations apply, an application for interest and penalty relief may be available. Note that taxes would still be owing.



## MEAL REIMBURSEMENTS

### A TAXABLE BENEFIT?

Generally, an employee must **include the value of any benefits** received or enjoyed in their taxable income. CRA normally considers a taxable benefit to be conferred when:

- the benefit provides an **economic advantage** to the employee;
- the benefit is **measurable and quantifiable**; and
- it **mainly benefits the employee** (or a non-arm's length person) and not the employer.

If the meal is reimbursed while the employee is **travelling within the municipality or metropolitan area** of the establishment of the employer, the **employee** is generally considered the **primary beneficiary**. However, in certain cases, the reimbursement can be excluded from the employee's income. For example, if the **main purpose of the reimbursement** is to ensure that the **employee's functions are carried out more effectively** as part of a shift, then the **employer** could be the one who **mainly benefits**.

Meal reimbursements when the employee travels **outside the muni-**

**cipality** of the employer in the performance of their duties is generally considered to primarily **benefit the employer**.

The fact that the employer charges the client for the reimbursement is not a factor in this determination.

Consider the tax ramifications when developing and implementing a meal reimbursement policy.

## EMPLOYMENT EXPENSES

### DEDUCTION REQUIREMENTS

Generally, employees may deduct costs of certain employment-related expenses if:

- under the **contract of employment**, the employee had to provide and pay for the expenses;
- the employee does **not receive a non-taxable allowance** for the expenses;
- the **employer does not, or will not, repay** the employee for the expenses; and
- the employee keeps with his/her records a completed and signed copy of the appropriate form(s) (i.e. Form T2200, **Declaration of Conditions of Employment**, or Form TL2, **Claim for Meals and Lodging Expenses**).

Additional conditions must be met to deduct certain types of expenses (such as, for example, travel).

For more information on employment related expenses, see [www.cra.gc.ca/employmentexpenses](http://www.cra.gc.ca/employmentexpenses), Chapters 3 and 4 of Guide T4044, Employment Expenses 2016.

Employers – ensure that Form T2200 is properly completed and distributed or employees may be denied employment expense claims. Employees – obtain Form T2200 from your employer as early as possible.

*We recommend that you obtain professional advice before acting on information contained in this newsletter.*

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