



# Sold your home? CRA may penalize you if you fail to report it



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The Canada Revenue Agency is getting tough with people who fail to comply with new rules requiring the routine sale of a home to be reported, even when there's zero tax owing.

If you don't report the sale of a principal residence on your income tax return, you could be subject to a fine of as much as \$8,000. And something else to keep in mind: Normally, CRA may reassess your tax returns going back three years; with the reporting of a sale of a home, there's no limit on how long CRA can wait to reassess you.

It sounds like CRA may go easy on applying fines for now because more stringent requirements for reporting the sale of a home are still relatively recent. But the rules for reporting the sale of a house on a tax return have definitely changed. There's now a potentially harsh cost for not complying.

Canada's religion of home ownership is built in large part on what tax experts call the personal residence exemption, or PRE. It means you don't have to pay tax on capital gains realized when you sell a home that was designated a principal residence for the entire time you owned it. You or a spouse, common-law partner or a child must have lived in the home at some point during the year. Houses, condos, units in a duplex, cottages, mobile homes, trailers and houseboats all qualify, and they don't have to be located in Canada.

Reporting the sale of a principal residence was unnecessary before 2016, the year the federal government announced a series of steps designed to slow the housing market down and close housing-related tax loopholes. Some people used the previous lack of scrutiny of gains from the sale of a home to their advantage, including investors flipping homes, and others who owned both a cottage and a house and weren't conscientious about declaring which was a principal residence.

CRA says that if you forget to report the sale of a principal residence, you'll need to amend your tax return for that year as soon as possible. Late reporting may be accepted in some cases, but it's possible you'll have to pay a penalty equal to the lesser of \$8,000 or \$100 for each complete month you're late in reporting.

Accountant Mark Goodfield of BDO Canada says a new requirement for 2017 is to fill out a form called a T2091, which carries a “Designation of a Property as a Principal Residence by an Individual” label from CRA. There is also a carryover requirement to fill out Schedule 3 on the basic tax form, where you report the sale of various types of financial assets.

Previously, people selling a house had to fill out the T2091 form only if the property wasn’t their principal residence for the entire time they owned it. Filling out the T2091 is simple – Mr. Goodfield says you need to provide the address of the home, the year you bought the property and the proceeds from the sale. He describes the penalty for not complying as fairly stiff, given that \$2,500 is used as a maximum penalty in some other cases.

As for how aggressively the penalty will be applied, Mr. Goodfield’s take is that CRA may take an approach similar to the one used on over-contributions to tax-free savings accounts back when they were still new to people (TFSA’s were introduced in 2009). “When everyone was confused at the start and penalties were being levied all over the place, CRA had some discretion, and early on, I think they let some of the penalties go. I wouldn’t be counting on their generosity [for late disclosure of a home sale], but they may have a little leniency in the first few years.”

There’s additional incentive beyond penalties to disclose the sale of a principal residence to CRA in the year it occurred. A tax memo from the tax law firm Thorsteinssons LLP said a late filing could raise a red flag for the taxman, leading to a possible audit. Report the sale of your principal residence promptly to avoid both cost and hassle.

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