PERSONAL **Newsletter**

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New Tax Credits for Homeowners

Amongst the many tax proposals being introduced by the federal government this year are an enhanced tax credit for buying your first home and a brand-new tax credit that helps with certain renovation costs associated with renovations for multigenerational households. This article will highlight what you need to know about each.

First Time Home Buyers' Tax Credit

The First-Time Home Buyers' Tax Credit may be claimed by the first-time home buyer of a qualifying home. The credit is computed at the lowest marginal tax rate of 15%. The amount of the credit is being increased to a maximum of $10,000 for 2022. It was $5,000 before 2022. After applying the 15% credit rate to the $10,000 credit amount, the maximum credit will be $1,500 for 2022 and beyond. The $10,000 credit may be split between the individual and their spouse or common-law partner, or two individuals buying the qualifying home on a joint basis, but the combined amount claimed by both persons must not exceed $10,000.

You do not have to attach the purchase agreement or other documents supporting your transaction to your tax return, but you should keep them in case the CRA requests additional documentation.

What Is a Qualifying Home?

A "qualifying home" is a housing unit located in Canada, or a share of the capital stock of a cooperative housing corporation, the holder of which is entitled to possession of a housing unit located in Canada. Simply put, a qualifying home includes a single-family house, a semi-detached house, a townhouse, a mobile home, a condominium unit, an apartment in a duplex, a triplex, a fourplex, or an apartment building, or a share in a cooperative housing corporation (but only if the share gives the individual an equity interest, not only a right to tenancy in the housing unit). The following additional conditions must be met:

- the home is registered in your name and/or the name of your spouse or common-law partner; and
- you, your spouse or common-law partner, or the person eligible for the disability tax credit (see below) must intend to inhabit the qualifying home as a principal residence no later than one year after the date of purchase.

You also cannot have owned, jointly or otherwise, a home that you occupied in the period that began at the beginning of the fourth preceding calendar year and ended the day before the acquisition.

During the same period, your spouse or common-law partner cannot have owned a home that was inhabited by you during the marriage or common-law partnership. Note that there is no restriction regarding the spouse or common-law partner owning and occupying a home, but rather if the spouse or common-law partner did own and occupy a home, you cannot have also inhabited it.

Persons With Disabilities

You may also claim the tax credit for the acquisition of a qualifying home for the benefit of a person entitled to claim the disability tax credit (which can of course include yourself). The home must:

- be acquired for the benefit of the person with a disability and to enable them to live in a home that is more accessible,
- enable the person to be more mobile or functional, or
- be an environment better suited for that person's personal needs and care.

Neither the person with a disability nor you (if they are not the same person) must be a first-time home buyer to qualify for the credit, but the person with a disability must intend to use the qualifying home as a principal residence no later than one year after the date of acquisition. If the credit is claimed by two or more taxpayers, the combined claim may not exceed $10,000 for 2022 and later years ($5,000 before 2022).

To qualify for this credit without being a first-time home buyer, the person with a disability must be able to claim the disability tax credit for the year in which the agreement to purchase the qualifying home is signed, or would be able to claim that amount if the costs for attendant care or care in a nursing home were not claimed for the medical expense tax credit.

Non-Qualifying Purchasers on Title

The individual (or spouse) would not be disqualified from claiming the credit merely because the parents of one of the spouses were on the legal title of the qualifying home. The parents, however, would not qualify for the credit.

Multigenerational Home Renovation Tax Credit

The federal government proposes that effective for 2023 and subsequent years, an eligible individual may claim a Multigenerational Home Renovation Tax Credit ("MHRTC") for a qualifying renovation, if the renovation work is performed and paid for after 2022. The value of the MHRTC for a taxation year will be equal to 15% of the lesser of the qualifying expenditures for the taxation year or $50,000. Thus, the value of the credit can be as much as $7,500 in a year, assuming you have sufficient renovation costs to expense.

Definitions

The following definitions are used to calculate the MHRTC.

Qualifying Individual

A qualifying individual is an individual who is:

- over 64 at the end of a taxation year in which a renovation period ends; or

- over 17 and eligible for the disability tax credit for a taxation year in which a renovation period ends.

Qualifying Relation

A qualifying relation of a qualifying individual is an individual who is:

- Over 17 by the end of the year; and
- A parent, grandparent, child, grandchild, brother, sister, aunt, uncle, niece, or nephew of the qualifying individual or their cohabiting spouse or common-law partner, during the year.

Eligible Dwelling

An eligible dwelling is a housing unit located in Canada and owned (jointly or not) by the qualifying individual or a qualifying relation. The housing unit may also be owned by a trust of which the qualifying individual is a beneficiary. To qualify for the MHRTC for a taxation year in which a renovation period ends, the housing unit must be ordinarily inhabited or expected to be ordinarily inhabited within 12 months after the end of the renovation period by the qualifying individual or by a qualifying relation of the individual. An eligible dwelling includes the land subjacent to the housing unit and up to ½ hectare of contiguous land.

Eligible Individual

An eligible individual is an individual who ordinarily resides in an eligible dwelling within 12 months after the end of the renovation period and is

- a qualifying individual,
- a cohabiting spouse or common-law partner of the qualifying individual,
- a qualifying relation of the qualifying individual,
- a qualifying relation of a qualifying individual who owns the eligible dwelling, or
- the beneficiary of a trust owning the eligible dwelling.

Qualifying Expenditure

A qualifying expenditure is a reasonable expense meeting the following conditions:

- It is made or incurred by an eligible individual during the renovation period and is directly attributable to a qualifying renovation of an eligible dwelling.
- It includes the cost of goods acquired, services received, permits required, and equipment rental used in the renovation period for the qualifying renovation.

A qualifying expenditure includes expenses for:

- labour and professional services;
- building materials;
- fixtures;
- equipment rentals; and
- permits.

But it does not include expenses for:

- furniture;
- tools;
- construction equipment;
- annual recurring or routine repair or maintenance;
- household appliances and devices like audiovisual;
- electronics (like electronic home-entertainment devices);
- housekeeping, security monitoring, gardening, or outdoor maintenance;
- financing costs of a “qualifying renovation”;
- expenses not supported by receipts;
- expenses reimbursed or subject to financial assistance;
- expenses used to claim the medical expense tax credit; and
- expenses used to claim the home accessibility tax credit.

Qualifying Renovation

A qualifying renovation is a renovation, alteration, or addition to an eligible dwelling of a qualifying individual that:

- is of an enduring nature and is integral to the eligible dwelling; and
- is undertaken to allow the qualifying individual to reside in the dwelling with a qualifying relation of the qualifying individual by establishing a secondary unit within the dwelling to be occupied by the qualifying individual or qualifying relation.

Note that only one qualifying renovation can be made during the qualifying individual's lifetime.

Renovation Period

A renovation period for a qualifying renovation:

- begins when the municipality or local authority where the eligible dwelling is located authorizes the commencement of the qualifying renovation; and
- ends when the qualifying renovation is completed and passes final inspection.

Secondary Unit

A "secondary unit" is a self-contained housing unit (with a private entrance, kitchen, bathroom, and sleeping area) that meets all local requirements to qualify as a secondary dwelling unit.

Claiming the Credit

The MHRTC may be claimed by an eligible individual for the year that includes the end of the renovation period. More than one taxpayer may claim the MHRTC for the year, but the qualifying expenditures claimed for the year may not exceed $50,000 (or the total amount of qualifying expenditures) and the annual credit cannot exceed $7,500 (i.e., $50,000 x 15%).

The credit can only be claimed by Canadian residents and the CRA will split the credit between the claimants if they cannot agree between themselves on how to do it.

Expenditures Incurred by a Trust

A special rule applies if expenses are made by a trust of which an eligible individual is a beneficiary. The share of the expenses reasonably attributable to an eligible dwelling must meet the following conditions to be considered qualifying expenditures:

- they would be qualifying expenditures of the individual if they had been made by the individual themselves; and
- the trust notified the individual of the amount of expenses attributable to the eligible dwelling.