

Changes Coming to the Canadian Principal Residence Exemption?

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Are we about to see the long-standing sacred cow of Canadian tax – the Canadian principal residence exemption – be significantly modified? Perhaps. Politically, it might be a tough sell for any governing party if their voter base views such changes negatively but the time for change might be ripe.

In a recent [podcast](#) that my colleague, Kenneth Keung, and myself recorded, we reviewed the existing Canadian principal residence exemption rules (including dispelling some prevailing myths that are quite common), briefly compared the Canadian rules to the United States' rules, reviewed some recent changes to the Canadian rules and mused about possible amendments. Please have a [listen](#).

Recently, there have been a flurry of media articles by pundits who believe that the Canadian taxation policies involving principal residences should change. These articles include suggestions to introduce taxation of home equity (some of these articles seem to confuse a home equity tax with an amended principal residence exemption), introduction of a wealth tax (which may or may not include principal residences) and suggestions that the Canadian capital gains inclusion rate will increase (which will adversely impact Canadians with multiple properties that may qualify for the principal residence exemption in the same year, along with much broader implications).

All this excitement appears to have created a bit of a cottage industry for some “advisors” that appear to be suggesting that taxpayers should be doing proactive planning to protect current available principal residence exemptions. While I don't disagree that proactive planning should be considered, we have experienced some “plans” that suggest principal residences should be transferred to a Canadian corporation. In virtually all circumstances (yes, there may be the odd exception) such a plan will come with significant taxable benefit consequences. I wrote about this issue over nine years ago in a firm [blog](#). Surprisingly, this blog is still very relevant today and anyone who is considering transferring a principal residence to a corporation should read it and consider the underlying issues.

In the meantime, please keep your ears to the ground and be very wary of any “simple fix” planning to preserve the principal residence exemption. It's usually not that simple.