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Ask MoneySense



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Q: I bought a house in 2010 for \$600,000 and lived in that house as my principal residence until 2013. Then I bought and moved into another property. I rented out the first house and reported all income on my tax returns. In 2016, I sold the rental property for \$900,000. When I file my tax return for 2016, how much capital gains am I supposed to declare and report to the CRA? Is it \$900K minus \$600K, minus the cost of disposition; or \$900K minus whatever the deemed fair market value of the property at the time when I moved out in 2013, minus the cost of disposition?

Ayana Forward is a Certified Financial Planner with Ryan Lamontagne Inc. in Ottawa:

You are entitled to a principal residence exemption for the time you lived in the residence—between 2010 and 2013. The formula for calculating your principal residence exemption also includes an extra year so you will have four years of exemption according to the formula.

The formula is as follows:

$((\# \text{ of years home is principal residence} + 1) / \# \text{ of years home is owned}) \times \text{capital gain}$

Your capital gain before factoring in the principal residence exemption is your proceeds of disposition (\$900,000) minus your purchase price (\$600,000), which works out to \$300,000.

Using the above formula, your principal residence exemption is:

$((3 + 1) / 6) \times \$300,000 = \$200,000$

Your capital gain after factoring in the principle residence exemption is \$100,000 (as \$300,000 minus \$200,000 = \$100,000). Because it's a capital gain, the CRA will only charge you tax on 50% of that gain, resulting in a taxable capital gain of \$50,000.

The amount of tax you pay on that \$50,000 will depend on your marginal tax rate.

To report the sale and tax owed, you must complete form Form T2091(IND) Designation of a property as a Principal Residence by an Individual (Other Than a Personal Trust) and file it with your income tax return.

Ayana Forward RE Expert - Ayana Forward is a real estate investor who also holds the Certified Financial Planner (CFP®) designation. Ayana is fee-based Financial Planner with Ryan Lamontagne Inc in Ottawa, ON.