

HOME RENOVATION TAX CREDIT THE BASICS

The Home Renovation Tax Credit ("HRTC") announced by the Federal government in its January 27th budget applies to individual condominium units and to the corporation's common elements. It has not yet been passed into law (we are advised by the government that they hope to pass it within the next couple of months), so it is still early and there are many unanswered questions.

The HRTC is a non-refundable tax credit for work performed and goods acquired for eligible dwellings. An eligible dwelling is one which qualifies to be an individual's principal residence (as defined in the *Income Tax Act* of Canada) or that of one or more of their family members between January 27, 2009 and February 1, 2010. The HRTC does not apply to commercial units; and for individuals who earn business or rental income from part of their eligible dwelling the credit only applies to expenditures made for the personal-use portion of the unit.

The credit applies to eligible expenditures of more than \$1,000 but less than \$10,000. This will result in a maximum credit of \$1,350 per owner (\$9,000 x 15%). The work performed or goods acquired (i.e. the eligible expenditure) must occur after January 27, 2009 and before February 1, 2010. Therefore, if you have a project ready to go with the contract signed before January 28, 2009 but the work has not started, there is a good chance that it will not qualify for the HRTC. In such a case, until more definitive information is available from the government, it is recommended that the parties enter into a new contract, signed after January 28, 2009.

The tax credit is family based. This means that a family will be allowed a single credit that may be shared within the family. Notably, the credit is also available if two or more families own the unit. In this case, each family will be eligible for their own separate credit (i.e. each up to \$1,350) as long all of the eligibility criteria are met.

Note that the tax credit will not result in a cash refund to the owners or cash to the corporation, but rather it is a non-refundable tax credit to be claimed only by the owner(s) and only for their 2009 tax year.

For condominium corporations, the individual owners' share of the cost of eligible expenditures for common elements will qualify for the HRTC (e.g. renovating the lobby or replacing the roof, etc.). This share of the costs is in addition to eligible expenditures the owners spends in the unit, or in any other eligible dwelling, but to an aggregate total of \$10,000, resulting in an maximum aggregate tax credit of \$1,350.

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Eligible expenditures incurred in relation to a renovation or alteration must be of an enduring nature and be integral to the unit (or common elements). They include the cost of labour, professional services, building materials, permits etc., but they exclude routine repairs and maintenance normally performed on an annual or more frequent basis, and expenditures such as drapes, appliances, cleaning services, cleaning carpets, etc.

The goods acquired or services rendered do not have to be provided by a person who is registered for the GST/HST. However, they must be registered for the GST/HST if the person is not dealing at arm's length with the owner or the corporation. For example, a Board Member's brother could do the work or provide the goods so long as he is registered for GST/HST.

Although the HRTC is a tax credit and will not improve the cash flow of either the owner or the corporation, it nonetheless should provide an incentive for Boards to proceed with eligible projects now rather than waiting until next year, if for no other reason than the owners should support it (where they may have resisted or complained before) because they will be receiving an allocation of their proportionate share of the eligible expenditure and thus their tax credit.

It is also important to note that the program is receipt-based and not contract or invoice based. As such it will result in additional paperwork (principally for the property manager) if the work is undertaken for the common elements, because receipts and backup documents will have to be issued to each individual owner in their proportional amounts. The question therefore is who will do the calculations and breakdown and issue the owners' receipts? Will it be the managers or the contractor? Will this be enough of a problem that corporations will not want to bother?

As in any government incentive, there is also a risk that it may be for naught, at least for small projects. The night that the budget was announced, a contractor was interviewed and he said that for the little guy, contractors prefer to be paid in cash with no receipts (the classic grey market) and thus will offer a discount greater than the tax incentive. He went on to say that if receipts are required then contractors will inflate their costs in order to get a piece of the incentive pie.

This probably will not apply to larger common element projects (competitive tendering and multiple quotes) but nonetheless it could negatively impact the intended purpose of the tax incentive – to encourage Canadians to undertake renovations now in order to help stimulate the economy.

Although more information will be forthcoming from the government (but when?) there will still be many unanswered questions. Therefore, that it will be possible to seek CRA advanced tax rulings for these questions. Although these advance rulings are binding for the specific applicant only, they will be a good indication of how the CRA will generally rule on that specific issue or question, which will assist corporations and other persons in deciding on a course of action.

So time will tell whether or not the HRTC will work. In the meantime, everyone should seriously look into the incentive and seek professional advice as to its applicability to you and your proposed renovation project.

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