

The Home Renovation Tax Credit

In January 2009, the federal budget announced a new Home Renovation Tax Credit (HRTC) as part of its economic stimulus package. This credit will be available to individuals when they file their 2009 personal income tax returns. The credit is non-refundable, that is, you cannot get a refund as a result of the credit if you do not have any tax payable. It is available to individuals only and will be calculated at 15% of the amount spent on a renovation *in excess of \$1,000 to a maximum of \$10,000*. This results in a maximum credit of \$1,350. The amount of the credit is the same no matter what your income level might be. So owners can choose which family member claims the credit, as there is only one credit available per family. A family may include husband, wife and any children under 18.

Eligibility Criteria

Qualifying renovations must be “eligible expenditures” to an “eligible dwelling” during the “eligibility period” -

- **Eligible expenditures** essentially mean significant renovations or alterations, not just ordinary maintenance and minor repairs. The purchase of appliances is not eligible.
- **Eligible dwellings** are those that the owner, their spouse or their minor children ordinarily occupy. A cottage or ski cabin that is not ordinarily rented out would also qualify. Rented properties are not eligible.
- **The eligibility period** will be for work performed or goods purchased after January 27, 2009 and before February 1, 2010. This means that only work *completed* before Feb 1, 2010 will qualify for the credit.

The Home Renovation Tax Credit and Strata Owners

The credit will be available to strata owners for their share of any common area renovations which meet the eligibility requirements. There is no apparent restriction on where the funds for the renovation come from. In other words, it appears that the payment for the work can come from the Contingency Reserve Fund, from a special levy, from a previously established and funded special purpose fund, or from general operating funds. It is the use of the funds that will apparently determine the eligibility of the expenditure, not the source.

When renovations are completed and paid for by the strata corporation, each owner will be able to claim their proportionate share of those renovations based on their unit entitlement. If the common area expenditures are not enough to get the full credit, owners can also claim additional credits for any renovations they may have done inside their own units. On the other hand, if an owner’s renovations cost more than \$10,000, they may not need to use any of the common property renovations for the credit. It is entirely up to the owners to decide which amounts they want to claim for the credit.

Allocating Credit for Funds Spent on Qualified Projects or Expenses

The proration of common renovations will be similar to the allocation prepared when a budget is approved and each unit’s monthly fees are established. The property manager will need to keep records of projects that

would qualify for the credit. Since many of these projects will come out of the CRF (Contingency Reserve Fund) or out of a special purpose fund, this will not be a big problem. The costs associated with those renovations will already be accounted for in a separate account. However, if the renovations are being charged as part of repairs and maintenance in the General or Operating Fund, we recommend that separate accounts be established for each project to clearly identify the total costs associated with that project. It would be helpful to do that within the CRF or Special Purpose Fund as well if there is more than one project completed in the period.

Providing the Necessary Supporting Documents to Strata Owners

Canada has a self-assessing system of tax. That means that we calculate our own tax payable, fill out the forms and send them in to CRA. There is generally no requirement to send in receipts and in most cases, CRA will accept the filings we submit. They do, however, have the right to request supporting information and often will do so. They have the ability to request the information at any time in the three years after you send in your return. So it is critical that supporting documents are available to owners when they are requested by the CRA.

On the other hand, it is very possible that only a few of the owners in a particular building will be asked to provide such required documents. Thus, it would not make sense financially, or ecologically, for the property manager to provide all supporting information unless requested by an owner. It would seem that if the Property Manager were to provide a summary statement to each owner, outlining the details of the project, when it was completed, what the total cost was and what each owners' proportionate share was, the majority of owners would have adequate information to file their claims. The Property Manager should simply make it very clear in this summary that if CRA requests further information from the owner, such information can be obtained from the Property Manager.

CRA has outlined what will be considered as acceptable documentation in support of a claim. Essentially, you will need an invoice from the supplier of the goods or services which includes the following information:

- Information that clearly identifies the vendor/contractor, their business address and, if applicable, the GST/HST registration number;
- A description of the goods and the date when the goods were purchased;
- The date when the goods were delivered (keep your delivery slip as proof) and/or when the work or services were performed;
- A description of the work performed including the address where the work was performed;
- The amount of the invoice; and
- Proof of payment. Receipts or invoices must indicate paid in full or be accompanied by other proof of payment, such as a credit card slip or cancelled cheque.

These requirements will put a significant burden on the Property Managers in terms of collecting information for owners to enable them to make their claims. In particular, keeping copies of all invoices, together with the related cheques for payment will involve a change in the way many Property Management companies maintain their records. We are attempting to obtain clarification from CRA regarding this requirement as it relates to strata corporations. It would seem that a summary statement as previously described from a licensed property management company should be adequate support for an owner's claim. Unfortunately, at this time, we have been unable to obtain any information from CRA beyond their published documents.

Until we are able to obtain other advice from CRA, our recommendation is that all invoices for a qualifying project be copied or scanned to a separate folder together with copies of the payment cheques, once they

have cleared the bank. Once the project is complete, a ledger printout of the relevant account which adds up to the amounts that have been reported to the owners should also be produced. These printouts, together with the supporting invoice and cheque copies, could then be provided to the owners on an “as needed” basis.

Addition Q & A

1. Will a summary statement from a property manager, without supporting invoices or cheques, be adequate support for strata owners?

CRA has confirmed that a statement from the property management company indicating the individual owner’s share of the qualifying expense will be adequate as support for the owner’s claim. In other words, the property manager could simply issue a statement to owners, in the same fashion as they would for a special assessment, showing the total expenditure, together with the individual owner’s unit entitlement.

Although the property manager will not be required to provide each owner with copies of all invoices or a detailed listing of each item in a project, the statement must contain the following:

- (a) The vendor/contractor’s name,
- (b) The vendor/contractor’s business address,
- (c) If applicable, the vendor/contractor’s GST/HST registration number, and
- (d) A description of the work and when it was performed.

2. Will a new owner acquiring a unit during the year get the full benefit of the renovation even though it was completed before they bought the property?

CRA could not provide an answer definitively to our question about which owner can claim the HRTC in the case where a change in ownership occurs during the year. CRA is waiting until the legislation is drafted by the Department of Finance before a definite answer can be given. It is clear, however, that only 1 owner can claim the credit allocated to a unit. We would recommend that property managers include the date of completion and payment of the work in their statement to owners. We would also suggest that the owners on title at the time the project was completed be the ones who are entitled to claim the HRTC credit.

3. Is a project that started before January 27, 2009 but completed after that date and before February 1, 2010 eligible?

If a project started before January 27, 2009, or if the contract to do the renovation is signed before January 27, 2009, it would *not* be eligible for the claim (also see question 5 below).

4. What if a project takes more than the eligible period to complete? How are the costs to be allocated?

CRA has advised that the credit will be based on “expenditures for worked performed or goods acquired before February 1, 2010”. The implication is that you have to pay for the work or goods before February 1, 2010. It also implies that the work must be done or the goods acquired before that date. We were not given any clarification on the status of work that is only partially completed by February 1, 2010. We

presume that if a project is ½ finished and you have paid ½ of the contract price, you would be eligible to claim the amount paid. CRA has advised that there should be more clarity in their assessing practices once the legislation is written.

5. How do we treat deposits paid before January 27, 2009 for work done after that date?

Deposits paid before January 27, 2009 would be ineligible, as would the entire project since it was clearly contracted for before January 27, 2009. The CRA has made it clear that this tax credit was designed to stimulate work in the construction field. Obviously, if a project contract was already signed before the announcement date and that it was going to proceed anyway, there would be no additional stimulus. CRA will, therefore, ensure that only new projects that were planned *after* the credit was announced would qualify.

If you have any questions regarding this program, please email them to jnagy@rhncga.com or contact John at (604) 273-9338.

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