

Headline: **Home Renovation Tax Credit**

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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.

Outstanding Query with the CRA Regarding the HRTC

As with any new idea, the devil is in the details. The HRTC has resulted in a number of questions which need to be answered by CRA and we are making concerted attempts to get those answers. Unfortunately, the focus at CRA has been on the individual homeowner and there is very little information for condominiums. The following questions are being posed to CRA but have yet to be answered:

1. Will a summary statement from a property manager, without supporting invoices or cheques, be adequate support for an owner's claim?
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?
3. Is a project that started before Jan. 27, 2009, but completed after that date and before Feb. 1, 2010 eligible?
4. What if a project takes more than the eligible period to complete? How are the costs to be allocated?
5. How do we treat deposits paid before Jan. 27, 2009 for work done after that date?

We will continue to press CRA officials for answers to these and other questions as they come up. If you have any other queries that you would like us to put to CRA, please email them to jnagy@rhncga.com.

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