

## **TAX RULES APPLICABLE TO NON-RESIDENT OWNERS OF CANADIAN RENTAL PROPERTIES**

You are subject to a 25% flat rate withholding tax on your gross rental income (before expenses). The rental agent/property manager is responsible for withholding and remitting this tax in the first instance, but the Canadian tax authority (called CRA, for Canada Revenue Agency) can also pursue you and/or the tenant for this tax.

Alternatively, you may elect to report your rental activity on a net (after expenses) basis. This necessitates that you annually file a Canadian income tax return to report the rental activity and pay tax at the regular incremental tax rates on your net rental income. This is invariably the preferred approach, since the tax rate on the first bracket of income (up to ~\$35,000) is about 25%. Paying 25% on net income is always better than paying 25% on gross rents; and often there is no profit to show after expenses.

There are 3 ways to take advantage of the net filing election:

- 1) You may pay the 25% withholding tax throughout the year; then file a tax return after the end of the year to recover the tax. This is a simple approach, at the cost of giving the government an interest-free loan.

— OR —

- 2) You may file a tax return after the end of the year, without having paid the 25% withholding tax. This is a simple, but also a very expensive alternative. The CRA will charge you interest and penalties on the monthly withholding taxes that you did not remit, even though your annual tax return might report no profit. The penalties can often be 10-20% of the taxes not remitted and the interest rate is currently 5%.

— OR —

- 3) You may file a special form (form NR6) at the beginning of the year to indicate your intention of filing an annual tax return. On this form you essentially provide a projection of your rental income and expenses. If there is an expected profit, you must remit a reduced monthly withholding tax computed on the projected net income. The common difficulty involved with this option is that you must have a resident Canadian rental agent/property manager who is responsible for collecting your rents and who is willing to sign the NR6 form as your agent. This role can be filled by a friend or family member, but it is problematic due to the rather onerous undertaking required of the agent:

*I, the undersigned, declare that I am the Canadian agent of the non-resident indicated in Section 1. If the non-resident does not file an income tax return or pay tax according to the undertaking, I understand that I will have to pay to the Receiver General for Canada the full amount of tax that would otherwise have*

*been required to be remitted for the year, as well as applicable penalty and interest charges.*

If you do hire a Canadian rental agent/property manager, you should always confirm that they are familiar with the NR6 form and prepared to sign it.

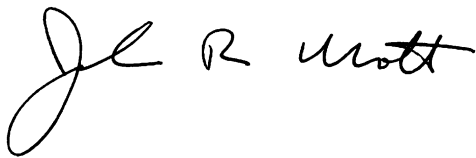
I charge a flat annual fee to handle all of the required tax filings. This includes the preparation of the annual tax return (called a section 216 return) and the NR6 form. Also included is the NR4 form, which must be filed annually if any withholding taxes are remitted during the year. I am unable, however, to fill the role of Canadian agent.

The Canadian taxation year corresponds to the calendar year. The relevant filing deadlines for a particular taxation year are as follows:

Form NR6	December 31 of the preceding year
Form NR4	March 31 of the following year
Income tax return	June 15 of the following year

If you have any questions, please let me know.

Yours truly,

A handwritten signature in black ink that reads "John R. Mott". The signature is written in a cursive, flowing style.

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