

## Underused Housing Tax

The Government of Canada implemented the Underused Housing Tax (UHT) on June 9, 2022, which impacts certain residential property owners as of December 31, 2022.

A residential property owner who is an **excluded owner** is not required to file a UHT return or pay the annual tax. A residential property owner who is an **affected owner** must file the UHT return by April 30 of the following year. Affected owners *may* be required to pay an annual 1% tax on the taxable value or the fair market value (FMV) of the vacant or underused housing.

### Who is an excluded owner?

An excluded owner includes, but is not limited to:

- A Canadian citizen or permanent resident
- Any person who owns residential property as a trustee of a mutual fund trust, real estate investment trust, or specified investment flow-through trust (SIFT) for Canadian income tax purposes
- A Canadian corporation whose shares are listed on a Canadian stock exchange
- A registered charity
- A cooperative housing corporation, or
- An Indigenous governing body or a corporation wholly owned by an Indigenous governing body

### Who is an affected owner?

An affected owner includes:

- An individual who is not a Canadian citizen or permanent resident
- An individual who owns a residential property as a trustee of a trust
- Any person who owns a residential property as a partner of a partnership
  - At this time the CRA may consider rental property owned by 2 or more people to be in a partnership regardless of their relationship
- A corporation that is incorporated outside Canada
- A Canadian corporation whose shares are not listed on a Canadian stock exchange (i.e. CCPCs and other private corporations), or
- A Canadian corporation without share capital

### Residential Property

You are only required to report if you own a residential property. For the purposes of the UHT, examples of residential property are as follows:

- Detached house or similar building that contains not more than three dwelling units (duplexes and triplexes)
- Semi-detached house, rowhouse unit, townhouses, and residential condominium unit, or
- Laneway houses and coach houses, cottages, cabins and chalets that are not for commercial use

Examples of buildings that are not considered residential properties:

- Quadruplexes (buildings that have four dwelling units)

- High-rise apartment buildings
- Buildings that are primarily (more than 50%) for retail or office use and that contain an apartment
- Commercial condominium units, or
- Boarding houses and lodging houses, commercial cottages, cabins and chalets for commercial use, hotels, motels, inns and bed and breakfasts, floating homes, mobile homes, park model trailers or travel trailers, motor homes and camping trailers

### **Exemptions to Tax**

There are numerous exemptions available to affected owners. The residential property could be exempt from the UHT depending on:

- The type of owner
  - A specified Canadian corporation
  - A partner of a specified Canadian partnership, or a trustee of a specified Canadian trust
  - A new owner in the calendar year, or
  - A deceased owner, or a co-owner or personal representative of a deceased owner
- The availability of the residential property
  - Newly constructed
  - Not suitable to be lived in year-round, or seasonally inaccessible, or
  - Uninhabitable for a certain number of days because of disaster or hazardous conditions or renovations
- The location and use of the residential property
  - A vacation property located in an eligible area<sup>1</sup> of Canada and used by you or your spouse or common-law partner for at least 28 days in the calendar year
- The occupant of the residential property
  - It is the primary place of residence for you, your spouse or common-law partner, or for your child who is attending a designated learning institution, or
  - At least 180 days in the calendar year are included in one or more qualifying occupancy periods for your ownership of the residential property

**Reminder:** Affected owners are required to file the UHT return even if they are eligible for an above exemption.

### **UHT Calculation**

UHT is 1% of the value of the residential property, multiplied by their ownership percentage. Value of the property can be taxable value<sup>2</sup> or FMV<sup>3</sup>.

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<sup>1</sup> CRA has [designed a tool](#) for owners to search if property in an eligible area qualifies for the vacation property exemption.

<sup>2</sup> The taxable value is the greater of the property tax assessment value or the most recent sale price of a related property during the year.

<sup>3</sup> The FMV will be determined by getting an appraisal of the property. An appraisal report must be prepared by an accredited, professional real estate appraiser operating at arm's length from the owner.

If FMV is used for the purpose of UHT calculation, an election must be filed by April 30<sup>th</sup> of the following calendar year.

### **UHT Return**

An affected owner must file a UHT Return (Form UHT-2900) for a residential property even if the ownership is exempt from the UHT by April 30 of the following calendar year. The affected owner must file a separate return for each residential property owned or if the property is owned by multiple owners.

To file a return, you will need a social insurance number, individual tax number, or a Canadian business number. If you are a corporation, you must use a business number with an Underused Housing Tax (RU) program account identifier code to file your UHT Return.

### **Penalties**

Penalties for failing to file the UHT Return when it is due is a minimum of:

- \$5,000 for individuals
- \$10,000 for corporations

An affected owner could be subject to UHT on an exempt property if the UHT return is not completed.

### **Conclusion**

If you are an excluded owner, no action is required on your part. Anyone else who owns residential property may want to consider discussing your situation with your tax advisor.