

RENTAL INCOME EARNED ON A CANADIAN REAL PROPERTY BY NON-RESIDENT(S) (Canadian Tax Implication)

When a non-resident receives rental income from a real property in Canada, the payer, who may be a tenant or a property management company, is required to withhold and remit 25% of the **gross** rent to Canada Revenue Agency (CRA). Failure to remit, late or none remittance are subject to a penalty of 10% of the required withholding amount and 20% for repeat offenders, *plus* interest.

In general, the Part XIII tax withholding is your final tax obligation in Canada concerning rental income earned on a real property in Canada.

Besides Part XIII tax, the payer has to file an annual NR4 information return with CRA March 31 of the following. The NR4 return summarizes gross rent paid or credited to you in the previous tax year. The payer should provide you with two copies of a NR4 slip. Failure to file, late or none filing will be subject to a penalty of \$10 per day up to a maximum \$1,000 per NR4 return.

A provision in the Canadian taxation allows a non-resident to elect to file a Canadian income tax return. This elected return simply requests tax be assessed on **net** rental income and at **marginal** tax rates. In general, excess Part XIII tax remitted will be refunded by filing an elected tax return. It is crucial to keep documents/receipts of expenditures incurred to earn rental income. Canadian income tax returns are filed during February – April of the following year.

In addition to an elected Canadian income tax return, a non-resident can also request the Part XIII tax be reduced to 25% of **estimated net** rent by filing a NR6 request. To make this election, a reasonable estimate of an annual net rental income must be established. This election must be made before January 1 or when the 1st rental payment is due.

If you decide to sell the property, please refer to Disposition of A Canadian Real Property By A Non-Resident Vendor for a brief overview of tax implications concerning disposing a Taxable Canadian Property.