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# Changes to Principal Residence (PR) Exemption rules
## (December 2016)

On October 3, 2016, the Department of Finance announced amendments to the PR Exemption rules that may limit the ability for certain individuals and trusts to claim the PR exemption. The Department also announced new reporting requirements to report the disposition of property for which the PR exemption is claimed for tax years ending after October 2, 2016.

Changes in computing the PR exemption for individuals:
For disposition of property that occurs after October 2, 2016, the PR exemption calculation formula has been amended so that the additional year in the “one-plus rule” is only available to taxpayers who were resident of Canada during the year which the property was acquired. This means that if the PR property was purchased at the time when the individual was a non-resident, the one extra year of exemption room will no longer be available.

Changes in PR exemption for Trusts:
After 2016, only certain types of trust can designate a property as a PR under the new rules. Only the following types of trust can claim the PR exemption:

- i) Alter ego, spousal or common-law partner trust, joint spousal or common law partner trust or certain trust for the exclusive benefit of the settler during the settlor’s lifetime
- ii) Testamentary trust that is qualified disability trust for the year
- iii) Inter vivo or testamentary trust where the settlor died before the start of the year; eligible beneficiary must be a minor child of settler whose partners are deceased before start of year

The capital gain upon disposition will be calculated based on two periods: The first period is the notional disposition of the property at fair market value on December 31, 2016 where the PR exemption can be claimed. The second period is the gain on actual disposition, using the fair market value on December 31, 2016 as the cost of the property, with no claim on the PR exemption.

For trusts that are no longer eligible for PR exemption, transitional rules are available to provide relief for the gain accrued to the end of 2016.

Changes to reporting requirements for 2016:
Starting from the 2016 taxation year, individuals will have to report their disposition of property for which they claim the PR exemption in their T1 personal income tax return (Form T2091). If the disposition is not reported and the designation is not indicated on the return, CRA will disallow the PR exemption.

For any tax year where the taxpayer does not report the disposition of property, an extended assessment period has been added to the normal three years reassessment period from the date of initial notice of assessment.

Individuals who purchase property in Canada while they are a non-resident of Canada and beneficiaries of certain trusts should review the new rules on how this may affect their tax planning.