



PACIFIC CPA
CHARTERED PROFESSIONAL ACCOUNTANTS

SHORT-TERM RENTAL DEDUCTION LIMITATIONS

(Proposed – Draft Legislation)



WHY THE CHANGE?

- Canada has a housing / rental crisis and needs more long-term housing
- Short-term rentals are seen to be used for tourists when they could be used to house Canadians to live in

IMPORTANT NOTE: FEDERAL GOVERNMENT IS PLANNING ON INVESTING \$50 MILLION OVER THE NEXT 3 YEARS TO HELP WITH ENFORCEMENT

THE FEDERAL GOVERNMENTS GOAL

- To deny income tax deductions for expenses incurred to earn short-term rental income, including interest expenses, in provinces and municipalities that have prohibited short-term rentals.
- Intends to deny income tax deductions when short-term rental operators are not compliant with the applicable provincial or municipal licensing, permitting, or registration requirements.
- These measures would apply to deny all expenses incurred **on or after January 1, 2024.**

PROPOSED DEDUCTION LIMITATION WORDING

- Notwithstanding any other provision of this Act, in computing income for a taxation year, no amount is deductible for an outlay made, or an expense incurred, in respect of a **short-term rental** to the extent the outlay or expense is a **non-compliant amount** for the taxation year.

WHO IT APPLIES TO?

- Non-compliant short-term rentals;
- Prohibited short-term rentals; or
- When short-term rental operators do not comply with the applicable provincial or municipal licensing, permitting, or registration requirements.

Definition of “Short-term Rental”

Short-term rental means a residential property that is offered for rent for a period of less than 90 consecutive days.

Definition of “Residential Property”

Rental residential property means all or any part of a house, apartment, condominium unit, cottage, mobile home, trailer, houseboat, or other property located in Canada, the use of which is permitted for residential purposes under applicable law.

Definition of “Non-compliant Short-term Rental”

Non-compliant short-term rental means, at any time, a short-term rental that is located in a province or municipality that, at that time,

(a) does not permit the operation of a short-term rental at the location of the short-term rental; or

(b) requires registration, a licence or a permit to operate as a short-term rental, if the short-term rental does not comply with all registration, licensing, and permit requirements.

Definition of “Non-compliant Amount”

Non-compliant amount, for a taxation year, means the amount determined by the formula

$$A \times B / C$$

where

A is the **total of all outlays made, or expenses incurred**, in the taxation year in respect of the use of a residential property as a short-term rental in the taxation year;

B is the **number of days** in the taxation year that the residential property was a **non-compliant short-term rental**; and

C is the **number of days** in the taxation year that the residential property was a **short-term rental**.

Issue – It is already February 2024

Does this mean we are already into denied deductions for 2024?

No – they have added a one-year-only deeming provision to give until the December 31, 2024 to be compliant.

For the purposes of subsection (1), a short-term rental of a person or partnership is deemed not to be a non-compliant short-term rental for the person or partnership's **2024 taxation year** if

- (a) the short-term rental is located in a province or municipality that requires registration, a licence, or a permit to operate as a short-term rental; and
- (b) the short-term rental complies with all registration, licensing, and permit requirements on **December 31, 2024**.

KEY POINTS

- 1) As the non-compliant amount is pro-rated based on the tax year, it won't matter if you decide to ensure you only spend and do repairs during the longer periods of tenancy. Limitations would still apply.
- 2) We do have an exception for 2024 to allow us to get compliant by December 31, 2024 to deem the person to not be a non-compliant short-term rental.
- 3) This has not reached Royal Assent yet. It is still draft legislation.