

Emigrants/Non-residents of Canada and Canadian Rental property(ies)

Below is information about owning Canadian rental property when you leave Canada and while not a Canadian resident. This should provide you a fairly thorough overview of what you are looking at for procedures and tax requirements in Canada when leaving and after you have left.

1. In the year you sever your residential ties with Canada, you will file an “emigrant” return with the International tax services office which indicates to them the date you left Canada. This part-year return will calculate tax on your worldwide income up to the date you left, plus tax on your Canadian sourced employment, business, scholarship income and/or gains from the sale of taxable Canadian property after your date of departure. Your non-refundable tax credits will be limited/prorated (unless you meet the 90% rule¹) and you may need to include gains from the deemed dispositions that may be required upon emigration² (it is an “exit tax” to capture any unrealized gains during the time you were a Canadian resident), so I usually tell emigrants to expect a tax bill in the year they leave.
2. Once you have left, you need to notify any Canadian payer (whether a tenant, property management company, financial institution, etc.) that you are not a resident of Canada. This allows the Canadian payer to properly withhold any Part XIII tax that is required to be withheld at source from payments to a non-resident of Canada. Changing your address is not sufficient. You MUST specify to the payer (preferably in writing) that you are no longer a resident of Canada. We suggest doing so by providing each payer a completed form NR301³.
3. One of those payers that is required to withhold is a property management company that may be managing your rental property(ies). If there is no property management company, then the obligation falls on the Canadian resident tenant⁴. They are required to withhold 25% from all gross rents paid to you and remit that tax to CRA under a Part XIII withholding account (this is the required withholding on any amounts paid to a non-resident unless a lesser treaty rate applies). This concludes your tax obligations to Canada. No return is required. In the spring each year, the property management company/tenant would provide you an NR4 slip. This is your annual tax slip which reports to you the gross rents paid to you and the total amount of tax that they withheld and remitted to CRA in respect of those rents. You would use this withholding confirmation to claim a foreign tax credit on your return in the country where you reside.

¹ <https://www.canada.ca/en/revenue-agency/services/tax/international-non-residents/individuals-leaving-entering-canada-non-residents/federal-non-refundable-tax-credits-newcomers-emigrants.html>

² <https://www.canada.ca/en/revenue-agency/services/tax/international-non-residents/individuals-leaving-entering-canada-non-residents/dispositions-property.html>

³ <https://www.canada.ca/en/revenue-agency/services/forms-publications/information-on-forms-nr301-nr302-nr303.html>

⁴ <https://www.canada.ca/en/revenue-agency/services/tax/international-non-residents/information-been-moved/rental-income-non-resident-tax/filing-reporting-requirements.html>

4. You can “elect” to file a section 216 return⁵. This would allow you to deduct your rental expenses and calculate tax payable on the net income instead (Under Part I of the Income Tax Act instead of Part XIII). You would then credit that return with the tax that was withheld by the property management company/tenant and receive a refund of the difference. This will essentially allow you to obtain a refund equal to 25% of your allowable expenses. If you choose this route, you would use the tax payable from this return to calculate your foreign tax credit on your return in for your country of residence.
5. You can have the property management company withhold tax at a lesser rate by completing form NR6 (which will essentially get you to the same end as #3 and #4 above, only you can hold on to that 25% difference throughout the year instead of CRA)⁶. This will obligate you to file a section 216 return each year by June 30th. Some property management companies will not do this as they are obligated to ensure that you have filed the section 216 return each year and they do not want to be subject to the fines for that – so you will need to check with the management companies as you shop around.
6. You can find more information than you ever wanted to know about this topic here <http://www.cra-arc.gc.ca/tx/nrdsdnts/cmmn/rntl/menu-eng.html>

⁵ <https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/t4144/income-tax-guide-electing-under-section-216.html>

⁶ <https://www.canada.ca/en/revenue-agency/services/forms-publications/forms/nr6.html>