

Source:

CCH Tax/Federal Income Tax/News Tracker/Today's News/2014-0528241E5 CABIN - CAPITAL GAIN. Could a capital gain on the sale of a cabin be sheltered from tax?

LANGIND E

DOCNUM 2014-0528241E5

REFDATE 140502

SUBJECT Cabin - capital gain

SECTION 39, 40, 54

Please note that the following document, although believed to be correct at the time of issue, may not represent the current position of the CRA.

Prenez note que ce document, bien qu'exact au moment émis, peut ne pas représenter la position actuelle de l'ARC.

PRINCIPAL ISSUES: Could a capital gain on the sale of a cabin be sheltered from tax?

POSITION: Question of fact.

REASONS: See below.

XXXXXXXXXX

2014-052824

K. Robinson

May 2, 2014

Dear XXXXXXXXXXXX:

Re: Capital property

We are writing in response to your letter of April 14, 2014, requesting our views regarding the income tax implications of the potential sale of a recreation property (i.e., a cabin) located at XXXXXXXXXX.

In your letter, you explained that when you purchased the cabin in XXXXXXXXXX, it was in very poor condition and that you had to invest funds to make the property livable. You have asked us if an exemption could apply to eliminate the potential capital gain that may arise when you sell it.

Our Comments

This technical interpretation provides general comments about the provisions of the Income Tax Act ("Act") and related legislation. It does not confirm the income tax treatment of a particular situation but is intended to assist you in making that determination. The income tax treatment of transactions will only be confirmed by this Directorate in the context of an advance income tax ruling request submitted in the manner set out in Information Circular IC 70-6R5, "Advance Income Tax Rulings".

Your cabin is capital property and more specifically, personal-use property for the purposes of the Act. Personal-use property refers to items that you own primarily for the personal use or enjoyment of your family and yourself. It includes all personal and household items, such as furniture, automobiles, boats, a cottage, and other similar properties.

Capital gains arising from the disposition of personal use property are

taxable unless the particular property can be designated as your principal residence as discussed below. For more information on the sale of personal-use property, please refer to page 19 of Guide T4037, "Capital Gains - 2013".

To calculate your capital gain or loss, you will need to know the following three amounts: the POD, the adjusted cost based ("ACB"), and the outlays and expenses incurred by you to sell the property. Your capital gain or loss will be calculated by subtracting the total of your property's ACB, and any outlays and expenses incurred to sell your property, from the POD. One half of the capital gain will be taxable. The ACB of your property would normally be the cost when acquired in XXXXXXXXXX. However, the ACB could also include any capital expenditures, such as the cost of additions and improvements to the property. Note that you cannot add current expenses, such as maintenance and repair costs, to the cost base of a property.

Principal Residence

Generally, a property qualifies as an individual's principal residence for any year if the following conditions are met:

- the property is a housing unit;
- the individual owns the property alone or jointly with another person;
- the property is ordinarily inhabited by the individual, the individual's current or former spouse or common-law partner, or any of the individual's children; and

- the individual designates the property as a principal residence.

A seasonal residence can be considered to be ordinarily inhabited in the year by a person who occupies it only during their vacation, provided that the main reason for owning the property is not to gain or produce income. In your case, the property may qualify as a principal residence. However, in previous correspondence, you also indicated that you also own another house.

For 1982 and later years, only one individual in a family unit may designate a property as a principal residence for a particular year. When an individual owns more than one residence, only one property may be designated in any given year. An analysis should be done to determine which property should be designated for each taxation year in which the properties are owned. For more information on the principal residence exemption, please refer to Folio S1-F3-C2, "Principal Residence".

We trust that these comments will be of assistance.

Yours truly,

Michael Cooke, C.P.A., C.A.

Manager

Business Income and Capital Transaction Section

Business and Employment Division

Income Tax Rulings Directorate