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Non Resident Taxes – Selling Real Estate In Canada

Are you a **non resident of Canada that has sold real estate in Canada**? If the answer is yes, then you should be aware of the tax implications for non-residents in respect of selling real estate in Canada. This will help you avoid any nasty surprises.

Non Resident Taxes – Selling Real Estate In Canada

Non-residents must pay a federal tax of 25% of the gross selling price on the sale of Canadian real estate, to the Canada Revenue Agency (CRA). For example, if a non-resident of Canada sold his Canadian real estate for $200,000, the tax to be remitted to the CRA would be $50,000. At a first glance, this makes investment in Canadian real estate appear very unattractive and cost prohibitive.

However, the federal tax of 25% on the gross selling price can be reduce to 25% on the capital gain realized (i.e. profit) on the sale of real estate in Canada. For example, if a non-resident of Canada purchased Canadian real estate for $100,000 and sold that real estate for $200,000, then the reduced rate of tax would be $25,000.

In order to have the reduced rate of tax apply, the seller must first apply for a Clearance Certificate, also known as a Request by a Non-Resident of Canada for a Certificate of Compliance Related to the Disposition of Taxable Canadian Property – Form T2062

It usually takes 4 to 8 weeks for the CRA to issue a Clearance Certificate (pursuant to section 116 of the Canadian Income Tax Act). Furthermore, the Clearance Certificate will only be issued if payment of tax is made by the Non-Resident seller with the Application for the Clearance Certificate. This poses a practical problem, because taxes have already been withheld by the Canadian purchaser and therefore the seller may not have sufficient funds to remit to the CRA along with the Application.

To solve this dilemma, the non-resident seller should attach a letter to the Application for a Clearance Certificate, requesting the CRA to directly obtain the funds from the purchaser, given that the purchaser has already withheld taxes from the gross selling price.

Liability For Tax – Non Resident Selling Real Estate In Canada

The Canadian purchaser is liable for the 25% tax on the gross selling price on the **sale of Canadian real estate to a non-resident of Canada**. As such, the Canadian purchaser will usually withhold 25% from the gross selling price, until the Canada Revenue Agency provides the purchaser with the Clearance Certificate. At that point, the purchaser will release the funds to the CRA and any excess funds will be returned to the non-resident seller.

Filing Tax Return For Sale Of Real Estate In Canada By Non-resident

At the end of the year, the non resident seller must file a Canadian income tax return to report the profit realized on the sale of his Canadian real estate. Taxes that have already been remitted to the CRA will be credited on the tax return filed. Usually, a non-resident of Canada will receive a tax refund because of personal tax credits that are granted to him on the Canadian income tax return filed.

About The Author – International Tax Accountant

Allan Madan is a Chartered Accountant and International Tax Accountant. He has worked on many cases involving non-resident taxes on selling real estate in Canada. To learn more about Allan, please see International Tax Accountant in Canada

Please see Tax on Non-Residents of Canada for further information.

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