

## **CRA Provides Details on Home Renovation Tax Credit**

In this year's federal Budget, the government announced the creation of a new "home renovation tax credit", intended to offset, through the tax system, costs incurred by homeowners in making improvements or upgrades to their homes. Since the announcement, the new credit has been widely publicized, including through television ads in which retailers promote the credit as a means of lowering the effective cost of any planned home renovations. Along with the hype, however, has come some confusion about just what kinds of costs and activities will qualify for the credit. To help alleviate that confusion, the Canada Revenue Agency has issued a number of publications outlining qualifying and non-qualifying expenditures in very specific terms.

Some basic facts about the credit: first, it's non-refundable, meaning that any credit earned will reduce federal taxes otherwise payable, but it can't create or increase a tax refund. Second, the credit is available only for qualifying expenditures of up to \$10,000, and only where those expenditures exceed \$1,000. In other words, no credit can be claimed for the first \$1,000 in expenditures or for expenditures over the \$10,000 ceiling. Finally, the credit can be claimed only on the taxpayer's 2009 tax return, for expenditures which are made after January 27, 2009, and before February 1, 2010. Note that although it's possible to make qualifying expenditures after the end of 2009, the credit must still be claimed on the 2009, and not the 2010, tax return, regardless of whether they were incurred in 2009 or in January 2010.

As outlined in the CRA's list of FAQs about the credit, any renovations must be made to a "housing unit that is eligible to be an individual's principal residence or that of one or more of their family members". In plainer language, the credit can be claimed for eligible renovations made to a home or cottage that is ordinarily (even if just seasonally) inhabited by the individual and/or his family personally. Where, however, the home is rented out to generate income, it ceases to be a principal residence and no credit is available. That restriction extends to parts of an otherwise qualifying principal residence that are rented out. Specifically, the CRA's position is that, if you rent out your basement apartment, no credit can be claimed for any renovation costs incurred in connection with that basement apartment (although the credit would be available for qualifying costs incurred with respect to the rest of the home, assuming that you or your family lived there). As well, where renovations are carried out that relate to the building as a whole (for example, a new furnace or a new roof), the expense must be divided between personal-use and income-earning use, and the credit claimed only on the personal-use portion. So, if you spend \$3,000 on a new furnace, and your basement rental apartment takes up one-third of the square footage of your home, you will not be able to claim the credit on one-third of the furnace or roof expenditure, or \$1,000.

Most of the questions and confusion around the home renovation tax credit relate to just what kinds of expenses and activities will qualify. As any homeowner knows, the list of possible costs relating to the maintenance and improvement of one's home is virtually limitless, and the line between eligible and non-eligible expenditures isn't necessarily easy to discern. To assist taxpayers, the CRA has provided a (non-exhaustive) listing of common expenditures that a homeowner might undertake and has identified which would or would not be eligible for the credit. That listing is as follows:

Eligible	Ineligible
<ul style="list-style-type: none"> <li>• Renovating a kitchen, bathroom or basement</li> <li>• New carpet or hardwood floors</li> <li>• Building an addition, garage, deck, garden/storage shed, fence</li> <li>• Re-shingling a roof</li> <li>• A new furnace, woodstove, boiler, fireplace, water softener, or water heater</li> <li>• A new driveway or resurfacing a driveway</li> <li>• Painting of interior or exterior of a house</li> <li>• Window coverings directly attached to the window frame and whose removal would alter the nature of the dwelling</li> <li>• Laying new sod</li> <li>• Swimming pools (permanent – in ground and above ground)</li> <li>• Fixtures – lights, fans, etc.</li> <li>• Associated costs, such as permits, professional services, equipment rentals, and incidental expenses.</li> </ul>	<ul style="list-style-type: none"> <li>• Furniture, appliances, and audio and visual electronics</li> <li>• Purchasing of tools</li> <li>• Cleaning carpets</li> <li>• House cleaning</li> <li>• Maintenance contracts (e.g., furnace cleaning, snow removal, lawn care, and pool cleaning)</li> <li>• Financing costs</li> </ul>

The list includes expenditures that a homeowner might not ordinarily consider to be renovation costs, such as painting and buying fixed window coverings. On the other hand, the cost of tools needed to carry out renovations that will themselves be eligible for the credit can't be claimed as part of the cost of those renovations.

Finally, the CRA publication makes it clear that the home renovation credit can be claimed even where another government grant or credit is received in respect of the same costs. The CRA makes specific reference to the federal government's ecoENERGY Retrofit program, which provides grants of up to \$5,000 to offset the cost of making energy-efficiency improvements to a home. As well, it was announced on March 30 that grants available under the ecoENERGY program were to be increased, for a temporary period, by 25%. In the example above, the homeowner who replaced an older furnace with a more energy-efficient model could claim any grant available under the ecoENERGY program and also claim the home renovation tax credit for the eligible costs of the new furnace on his or her 2009 tax return. More information on the ecoENERGY program can be found at <http://ecoaction.gc.ca/ecoenergy-ecoenergie/retrofithomes-renovationmaisons-eng.cfm>.

When claiming the home renovation tax credit, the taxpayer is not required to provide supporting documentation but must retain such documents in the event that the CRA requests them. The CRA has provided a form to enable homeowners to capture the necessary information and to calculate the amount for which the credit may be claimed, and that form is available on the CRA Web site at <http://www.cra-arc.gc.ca/tx/ndvdl/sgmnts/hmwnr/hrtc/wrksht-eng.html>.