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Renting From Abroad

Why the default withholding on Canadian rent is almost always the wrong answer, and how to get onto the net-income route instead.

Non-resident landlords: Canadian rent and the better route

Expats & non-residents · Published by Legal Quotient Consultants

Non-resident landlords: Canadian rent and the better route

Rent paid to a non-resident of Canada is subject to withholding on the gross amount, before a single expense. Electing to file a Canadian return on the net income instead almost always produces a lower tax bill, and sometimes no tax at all.

Who this is for

- Non-residents who own a Canadian rental property, including Canadians who emigrated and kept a condo.
- Agents and property managers who remit withholding on an owner's behalf and want the mechanism straight.
- Anyone who has been withholding on gross rent for years and suspects there was a better route.

The default: withholding on gross rent

When a non-resident receives Canadian rent, the payer — the tenant, or more usually the agent — must withhold a percentage of the gross rent and remit it, then report the amounts paid on an annual information slip. Because the withholding is applied to gross rent, mortgage interest, property taxes, insurance, condo fees, repairs and management fees are all ignored. A property that breaks even in cash terms can still generate real tax.

This is not a penalty; it is a collection mechanism. Canada has no ability to assess a person who is not there, so it collects at source and then offers the non-resident a way to reconcile. The reconciliation is the return, and it is optional — which is exactly why so many owners never take it.

The better route: elect to file on the net

A non-resident may elect to file a Canadian return reporting the rental operation on a net basis, claiming the ordinary deductions a resident landlord would claim, and paying tax on the profit at graduated rates rather than a flat rate on gross receipts. For a leveraged property the difference is usually the whole tax bill.

There is a second, more valuable step available where the numbers support it. Where an agent resident in Canada undertakes to file the return on the owner's behalf, withholding can be reduced to a rate applied to the estimated NET rent rather than the gross, month by month. That fixes the cash-flow problem as well as the tax problem, instead of parking money with the CRA for a year and reclaiming it.

Both routes have hard deadlines and both depend on the undertaking being in place before the year runs, not afterwards. The NR6 undertaking page sets out the sequence and the timing, and the non-resident rental return page covers the filing itself.

Capital cost allowance is a decision, not a default

Depreciation on the building is available and it reduces current tax, but it is recaptured when the property is sold, and a non-resident sale already carries withholding and a clearance certificate process. Claiming it also cannot create a rental loss. Whether to claim it depends on how long you intend to hold, what your marginal position is now versus on sale, and whether the other country gives you credit for the Canadian tax in the year you pay it.

This is the most common place where a technically correct return produces a worse overall answer than a considered one, because the deduction is taken by default in software and the recapture arrives years later in a return prepared by somebody else.

When you sell

A non-resident selling Canadian real property notifies the CRA, the purchaser withholds a percentage of the gross proceeds until a clearance certificate issues, and the actual gain is then settled on a return. Recaptured depreciation, the original cost, and the cost of improvements all come into that computation, which is why the records from the rental years matter at the point of sale.

The process is not fast, and it does not start at closing. Beginning the notification before the closing date is what keeps the sale proceeds moving and prevents a lawyer's trust account holding a large slice of the price for months.

The rental year, in order

The first two steps happen before the year begins. That is the whole trick.

1. **Appoint a Canadian agent** A resident agent who will remit withholding and, if you use the reduced-withholding route, give the undertaking to file. This can be a property manager or a professional firm.
2. **File the undertaking before the year starts** The undertaking that reduces withholding to a rate on estimated net rent has to be in place for the year it applies to, with an estimate of income and expenses behind it.
3. **Remit monthly and keep the evidence** Withholding is remitted on a monthly cycle. Keep the remittance confirmations — they become the credits on the return.
4. **Keep books as a resident landlord would** Every expense category, with invoices. The net route is only as good as the deductions you can support.
5. **File the annual information slip and the return** The agent reports the amounts paid and withheld; you file the elected return on the net income within its own deadline, which is not the ordinary filing deadline.
6. **Review before any sale** Depreciation claimed, improvements capitalised, and the clearance certificate process started before closing rather than after.

Papers to gather

What the return is built from:

- The lease or tenancy agreements and a rent roll for the year.

- Mortgage statements showing interest separately from principal.
- Property tax bills, insurance policies, condominium statements and utility accounts.
- Invoices for repairs, with a note of anything that was an improvement rather than a repair.
- Agent and management invoices, and the withholding remittance confirmations.
- The purchase documents and closing statement, for cost base.
- A record of any capital cost allowance claimed in earlier years.
- Your country of residence and the treaty position, if any, that applies to the income.

Where it goes wrong

- **Accepting gross withholding for years** It is the default, not the answer. Owners who have never elected are usually owed money, and there are limits on how far back the election can reach — which is why the review is worth doing now rather than later.
- **Missing the undertaking deadline and paying for it in cash flow** Without the undertaking in place for the year, withholding runs on gross rent all year and the excess only comes back on assessment. The tax outcome can still be fixed; the year of lost cash cannot.
- **Claiming depreciation without deciding to** It reduces tax now and is recaptured on sale, in a year when a non-resident sale already carries withholding on gross proceeds. It should be a decision with a reason behind it.

Questions this raises

Is filing a Canadian rental return optional for a non-resident?

The elected net-income return is optional, and the withholding on gross rent is not. In practice the election is what most owners want, because tax on gross rent ignores every expense — so the optional filing is usually the cheaper one.

Can I reduce the withholding during the year instead of waiting for a refund?

Yes, where a Canadian resident agent undertakes to file the return for you. Withholding is then based on estimated net rent rather than gross rent. The undertaking has to be in place for the year in question, so this is a decision made before the year starts.

What happens to the depreciation I claimed when I sell?

It is recaptured in the year of sale and added back to income, alongside the ordinary gain calculation. Because a non-resident sale also carries withholding on the gross price and a clearance certificate step, that year needs planning well before closing.

My tenant pays me directly. Who is responsible for withholding?

The payer is responsible, which in that arrangement is the tenant. That is an uncomfortable position for both of you, and appointing a Canadian agent to receive rent and remit withholding removes it.

What to do next

The first useful step is a two-year look-back: what was withheld, what the net position actually was, and whether a return can still be filed for those years. It is common for the answer to be a refund.

We act as the Canadian agent, give the undertaking, remit the withholding and file the annual return as one fixed-fee engagement, agreed in writing before the work starts. The rental return fee page shows the scope.

Legal Quotient Consultants

Cross-border and international tax. Fixed fees agreed in writing before work starts, quoted from your own documents.

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