

First-Time Home Buyers' Tax Credit

Budget 2009 proposes to introduce a new non-refundable tax credit based on an amount of \$5,000 for first-time home buyers who acquire a qualifying home after January 27, 2009 (i.e. the closing is after that date). The credit for a taxation year will be calculated by reference to the lowest personal income tax rate for the year and is claimable for the taxation year in which the home is acquired.

An individual will be considered a first-time home buyer if neither the individual nor the individual's spouse or common-law partner owned and lived in another home in the calendar year of the home purchase or in any of the four preceding calendar years. A qualifying home is one that is currently eligible for the Home Buyers' Plan that the individual or individual's spouse or common-law partner intends to occupy as the principal place of residence not later than one year after its acquisition.

Budget 2009 also proposes that the credit be available for certain acquisitions of a home by or for the benefit of an individual who is eligible for the disability tax credit (DTC). In particular, the credit will be available in respect of a home acquired after January 27, 2009 (i.e. the closing is after that date) by an individual who is eligible for the DTC, or by an individual for the benefit of a related individual who is DTC-eligible, if the home is acquired to enable the DTC-eligible individual to live in a more accessible dwelling or in an environment better suited to the personal needs and care of that person.

For the purpose of this credit, a "DTC-eligible" individual is an individual in respect of whom an amount is deductible under the DTC for the taxation year in which the agreement to acquire the home is entered into, or would be deductible if costs for an attendant or care in a nursing home were not claimed for Medical Expense Tax Credit purposes by or on behalf of that person. Where the home is acquired by or for the benefit of a DTC-eligible individual, the home must be intended to be the principal place of residence of that individual no later than one year after its acquisition.

The credit may be claimed by the individual who acquires the home or by that individual's spouse or common-law partner. For the purpose of this credit, a home is considered to be acquired by an individual only if the individual's interest in the home is registered in accordance with the applicable land registration system.

Any unused portion of an individual's First-Time Home Buyers' Tax Credit may be claimed by the individual's spouse or common-law partner. Where more than one individual is entitled to the First-Time Home Buyers' Tax Credit (for example, where two individuals jointly buy a home), the total amount of the credits claimable for the year by those individuals shall not exceed the maximum amount of the credit that would be claimable for the year by any one of those individuals.

Home Renovation Tax Credit

To stimulate economic growth and encourage Canadians to invest in improvements to their homes, Budget 2009 proposes to introduce a temporary Home Renovation Tax Credit (HRTC). The HRTC will provide meaningful tax relief to help Canadian homeowners make improvements to their property while promoting broad-based economic activity. The design elements of the HRTC are described below.

Design of the Credit

Individuals will be able to claim a 15-per-cent non-refundable tax credit for eligible expenditures made in respect of eligible dwellings.

The credit will apply to expenditures in excess of \$1,000, but not more than \$10,000, resulting in a maximum credit of \$1,350 ($\$9,000 \times 15\%$).

Eligibility Period

The credit will apply only to the 2009 taxation year. Expenditures for work performed, or goods acquired, after January 27, 2009 and before February 1, 2010, will be eligible for the credit. The credit will, however, not be available in respect of expenditures for work performed or goods acquired in that period if the expenditure is made pursuant to an agreement entered into before January 28, 2009. Individuals may claim this credit (including in respect of expenditures made in January 2010) in their 2009 income tax returns.

Eligible Individuals

Eligibility for the HRTC will be family-based. For this purpose, a family will generally be considered to consist of an individual, and where applicable, the individual's spouse or common-law partner, and their children who were, throughout 2009, under the age of 18 years.

Family members will be subject to a single limit based on their pooled expenditures.

While it is anticipated that in most cases one family member will claim the whole of the credit, any unused portion may be claimed by one or more of the other family members as a credit against that person's tax otherwise payable.

Two or more families that share ownership of an eligible dwelling will each be eligible for their own credit. Each family's credit will be determined by their respective eligible expenditures in excess of \$1,000, but not more than \$10,000.

Eligible Dwellings

Individuals will be able to claim the HRTC on eligible expenditures made at any time after January 27, 2009 and before February 1, 2010 in respect of dwellings that are eligible at any time during that period to be their principal residence or that of one or more of their other family members under the existing tax law.

In general, a housing unit is considered to be eligible to be an individual's principal residence where it is owned by the individual and ordinarily inhabited by the individual, the individual's spouse or common-law partner or their children.

In the case of condominiums and co-operative housing corporations, the credit will be available for eligible expenditures incurred to renovate the unit that is eligible to be the individual's principal residence as well as the individual's share of the cost of eligible expenditures incurred in respect of common areas.

Individuals who earn business or rental income from part of their principal residence will be allowed to claim the credit for the full amount of expenditures made in respect of the personal-use areas of the residence. For expenditures made in respect of common areas or that benefit the housing unit as a whole (such as re-shingling a roof), the administrative practices ordinarily followed by the Canada Revenue Agency (CRA) to determine how business or rental income and expenditures are allocated as between personal use and income-earning use will apply in establishing the amount qualifying for the credit.

Eligible Expenditures

Expenditures will qualify for the HRTC if they are incurred in relation to a renovation or alteration of an eligible dwelling (including land that forms part of the eligible dwelling) provided that the renovation or alteration is of an enduring nature and is integral to the eligible dwelling. Such expenditures would include the cost of labour and professional services, building materials, fixtures, equipment rentals, and permits.

The following expenditures will not be eligible for the credit:

- The cost of routine repairs and maintenance normally performed on an annual or more frequent basis.
- Expenditures for appliances and audio-visual electronics.
- Financing costs associated with a renovation (e.g. mortgage interest costs).

Alterations or other items, such as furniture or draperies, and other indirect expenditures for items that retain a value independent of the renovation, such as the purchase of construction equipment (e.g. tools) will not be considered integral to the dwelling and therefore will not qualify for the credit.

The HRTC will not be reduced by any other tax credits or grants to which a taxpayer is entitled under other government programs. For instance, in the case of an individual who makes an eligible expenditure that also qualifies for the Medical Expense Tax Credit (METC), the individual will be permitted to claim both the HRTC and the METC in respect of that expenditure.

Expenditures will not be eligible if the related goods or services are provided by a person not dealing at arm's length with the individual, unless that person is registered for Goods and Services Tax/Harmonized Sales Tax purposes under the Excise Tax Act. Any eligible expenditure claimed for the HRTC must be supported by receipts.

Home Buyers' Plan

The Home Buyers' Plan (HBP) allows first-time home buyers to withdraw amounts from a Registered Retirement Savings Plan (RRSP) to purchase or build a home without having to pay tax on the withdrawal. Budget 2009 proposes to increase the HBP withdrawal limit to \$25,000 from \$20,000.

For HBP purposes, an individual is generally considered to be a first-time home buyer if neither the individual nor the individual's spouse or common-law partner owned and lived in another home in the calendar year in which the HBP withdrawal is made or in any of the four preceding calendar years. Special rules apply to facilitate the acquisition of a home that is more accessible or better suited for the personal needs and care of an individual who is eligible for the disability tax credit, even if the first-time home-buyer requirement is not met. These rules will also be modified to provide the same \$25,000 withdrawal limit.

Withdrawn funds must generally be used to acquire a home before October of the year following the year of withdrawal. Amounts withdrawn under the HBP are repayable in instalments over a period not exceeding 15 years. To the extent that a scheduled repayment for a year is not made, it is added to the participant's income for the year. A special rule denies an RRSP deduction for contributions withdrawn under the HBP within 90 days of being contributed.

This increase in the HBP withdrawal limit will apply to the 2009 and subsequent calendar years in respect of withdrawals made after January 27, 2009.