



By FOREST LI

RENTAL BUSINESS BY A NON-RESIDENT

Wei Zhou (not his real name) came to Peterborough from China in September 2013 to pursue a bachelor's degree at Trent University. Within days of arriving, his mom, a short-time visitor to Canada, decided to buy a house for him. He uses one room and rents out the rest of the five-bedroom house.

Chinese parents – several of whom I personally know – who have kids studying in Peterborough have done the same. Since their kids needed a place to stay anyway, it made a lot of sense to them to dabble in a rental business – at least throughout the time that their kids are in Peterborough. Quite a few times I had been asked about the taxes involved in situations such as this, so I thought I should touch on them.

Mr. Wei came to me for help. He needed to prepare two sets of income tax returns for 2013: one for him, one for his mom. His return was simple. I applied an Individual Tax Number using his passport, prepared his tax return based on the T2202A slip from Trent University, sent the return to Canada Revenue Agency, and summarized what benefits he shall expect and what to watch out for in the future. He would receive about \$900 in GST credits and Ontario Trillium Benefits, plus a huge tax-saving benefit to carry forward due to his education credits. His mom's tax return was complicated. Mom owns the house, which generates investment income in the form of rents. She does not live in Canada, so she is a non-resident. He collects the rents on her behalf, so he acts as an agent for her in Canada. As such, he needed to file Form CR59, which authorizes

him as his mom's agent. As an agent for a non-resident, he needs to remit withholding tax from the rental income. The law requires him to withhold 25% of the rent and remit it to CRA by the 15th of every month. The 25% withholding tax on the gross rent is punitively high. An option, however, exists in the Income Tax Act for a 25% withholding tax based on the net proceeds of the rent, instead of the gross. Eligible expenses include property tax; insurance; utilities of heat, hydro and cable; maintenance; mortgage interest; professional fees, and so on. But in order to use the net-rent option, he needs to file the following forms with CRA:

- **Form NR6** – Undertaking to file an income tax return by a non-resident receiving rent from real or immovable property or receiving a timber royalty
- **Form NR4 and NR4 Summary** – Statement of amounts paid or credited to non-residents of Canada
- **Form T1159** – Income tax return for electing under Section 216

After these forms are filed, his mom's tax liability will be determined each year by T1159, a simplified income tax return.

The tax rules for investment income on real-estate rental by non-residents are complicated. Mr. Wei made the right decision to seek professional help. ■

FOREST LI is a certified income-tax consultant.

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