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 x 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.