

## **CANADA - TAX CONSIDERATIONS ON SHORT TERM LETS**

The following information can help you get started in learning about some of the tax requirements that might apply to you when providing short-term accommodation in Canada.

Tax can be tricky and it is important to ensure that you keep up to date with your tax obligations and remain tax compliant. The timely preparation, filing and payment of taxes are your responsibility.

If you are supplying short-term accommodation in Canada, you should make sure that you understand each of the following types of taxes, and pay the ones that apply to you:

- Income tax
- Sales tax

Please understand that the information contained herein is not comprehensive, and is not intended to be legal advice. If you are unsure about your local tax obligations, we encourage you to check this with official local sources,<sup>1</sup> or to seek advice from qualified professionals.

Please note that we do not update this information in real time, and so you should confirm that the laws or procedures have not changed recently.

*We also draw your attention to the fact that Airbnb may have an obligation to report income earned by users of the platform. Therefore, if there is a mismatch between the information reported by Airbnb and the income you reported in your annual income tax return, the tax authorities may ask you questions.*

The information contained herein is only applicable to individuals who provide short-term accommodation in Canada in their personal capacity. The tax considerations relating to providing short-term accommodation in Canada through a corporation, partnership, trust or other entity (e.g., who is the owner or lessor of the property) may be different.

### **INCOME TAX**

The federal government and each of the provinces and territories of Canada impose an income tax. Provincial/territorial income tax generally applies in addition to, and is not deducted from, federal income tax. The federal government collects personal income taxes for all provinces/territories except for Quebec. Below is a brief outline of the tax that may arise on

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<sup>1</sup> E.g., we refer to [this link](#).

income earned from short-term accommodations in Canada.

**The Canadian tax year** generally runs from January 1 to December 31 for individuals.

### **Coming within the charge to income tax in Canada**

#### ***Canadian Residents***

Residents of Canada are subject to tax on their worldwide income.

Where foreign income earned by a Canadian resident (e.g., from letting real property located in a foreign country) is also subject to tax in the foreign country, a foreign tax credit may be available to reduce Canadian tax. The availability of foreign tax credits is subject to certain limitations. For example, foreign tax credits are only available in respect of foreign taxes that are "income or profits" taxes (and so, subject to relief under an applicable tax treaty, are generally not available for, e.g., sales taxes, property taxes, wealth taxes, etc.), and cannot exceed the Canadian income tax otherwise payable in respect of the applicable foreign income. Where a foreign tax credit is not available for foreign taxes, a deduction may be available in computing income for Canadian tax purposes. These rules are complex. You are encouraged to seek the assistance of a personal tax advisor.

#### ***Non-Residents***

Non-residents of Canada may also be subject to tax in Canada, but generally only on Canadian-source income. This may include things like:

- profits from carrying on a business in Canada
- passive rental income for the use of property in Canada
- gains from the disposition of Canadian real property

A payer may be required to withhold tax from payments (e.g., for services performed in Canada, of rent for Canadian real property, or of the purchase price for Canadian real property) to non-residents of Canada.

### **Reporting tax in Canada**

The Canadian tax system is a self-assessment system. Individuals are required to determine their own liability for income taxes and file the required returns. Individuals each file their own returns; spouses cannot file jointly.

How you report your income will depend on whether you are earning income from a property (i.e., passive income) or income from a business (i.e., self-employment income). See below

regarding how to make this determination.

Income earned from renting property and related expenses are generally reported on [Form T776, Statement of Real Estate Rentals](#).<sup>2</sup> [Form T2125, Statement of Business or Professional Activities](#) is generally used to calculate self-employment income.

Non-residents who earn passive rental income from Canadian real property may be able to file a special type of return (using [Form T1159, Income Tax Return for Electing Under Section 216](#)) to elect to pay tax on a net basis (rental income minus certain expenses), instead of paying tax on gross rental income.

Additional filing obligations may apply if you are a resident or provide short-term accommodation in Quebec.

A payer may be required to report payments (e.g., for services performed in Canada, of rent for Canadian real property, or in respect of the purchase of Canadian real property) to non-residents of Canada.

### **Reporting tax - filing and payment deadline**

Individual income tax returns for both residents and non-residents of Canada are generally due on April 30 of the following year (meaning that the 2022 income tax return generally has to be filed by May 1, 2023 since April 30, 2023 is a Sunday), or on June 15 where the individual or their spouse is reporting self-employment income (e.g., income from business carried on as a sole proprietor). In either case, taxes owed must be paid by May 1. The filing and payment deadlines generally cannot be extended.

Interest on unpaid taxes begins to run from the May 1 deadline. Penalties may also apply where tax returns are not filed and/or taxes are not paid on time.

Once your tax return has been filed, the Canadian tax authorities should review the return and issue a notice of assessment to you. This assessment will contain the date the tax authorities reviewed the return, as well as the details about how much tax you may owe, or amounts you may receive as a refund or credit. The return may be reassessed if the Canadian tax authorities later determine the assessment to be incorrect, within certain time limits.

### **Canadian Tax Authority contact details**

The contact details for the Canada Revenue Agency are as follows:

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<sup>2</sup> Additional guidance from the CRA can be found on the CRA website at: [Completing Form T776, Statement of Real Estate Rentals](#).

- 1-800-959-8281 if you are calling from Canada or the continental U.S.; and
- 1-613-940-8495 if you are calling from anywhere else

Details can also be found on the Canada Revenue Agency [website](#).

The contact details for Revenue Quebec are as follows:

- 1-418-659-6299 if you are calling from Quebec;
- 1-514-864-6299 if you are calling from Montreal; and
- 1-800-267-6299 if you are calling from elsewhere in Canada or the U.S.

Details can also be found on the Revenue Quebec [website](#).

### **Canadian income tax rates**

Federal and provincial/territorial income tax is levied at marginal rates on individuals. The tax rates differ from province/territory to province/territory and for non-Canadian residents. Tax rates are subject to frequent adjustment, in some cases retroactively. Current personal income tax rates for all provinces/territories may be found [here](#).<sup>3</sup>

### **Canadian rules applicable to income earned in relation to short-term accommodations**

It is a question of fact whether income earned in relation to short-term accommodations is income from a property (*i.e.*, passive income) or income from a business (*i.e.*, self-employment income). This characterization may impact the application of certain Canadian tax rules. For example, property and business income are allocated differently for provincial/territorial income tax purposes, and are subject to different regimes when earned by non-residents.

Income earned from simply providing the use of a space together with basic services (such as electricity, parking and laundry facilities) may be considered property income.

If additional services are provided, such as cleaning, meals or security, you may be considered to be operating a business.

The above examples are included for illustrative purposes only and should not be relied upon as conclusive. The determination of whether income is income from a property or a business depends on all of the facts and circumstances, and is not always clear. If you are unsure of how your income should be characterized, you are encouraged to seek the assistance of a personal tax advisor.

### **Typical expenses that can be deducted from an individual's income in relation to short-term**

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<sup>3</sup> Different rates apply for non-residents.

## **accommodations**

You may be able to deduct certain reasonable expenses incurred to earn rental income, such as property taxes, insurance, and utilities. Where the rental consists of only a part of a building where you live (e.g., a room in your house), generally only the expenses that relate specifically to the rented part of the building may be deducted. This means generic expenses (e.g., utilities) may have to be divided on a reasonable basis.

Certain expenses that are capital in nature (*i.e.*, that provide an enduring benefit, such as certain renovation expenses and furniture) and that depreciate in value over time may not be able to be deducted in full when incurred, but may be able to be deducted over time under Canada's capital cost allowance (*i.e.*, amortization) rules.

Special rules also apply to certain other expenses, such as interest and construction costs, and to non-residents.

## **SALES TAX**

Various sales taxes apply across Canada, with particular rates and taxes varying across provincial/territorial, and sometimes local, jurisdictions. Canadian sales taxes can be complicated and you should take time to understand the rules as they apply to you and your particular situation. As with all taxes, we encourage you to consult with a tax advisor regarding your potential sales tax obligations in Canada.

The Goods and Services Tax/Harmonized Sales Tax (GST/HST) is a broad based, value added tax that applies on taxable supplies made in Canada.

Quebec sales tax (QST) is similar to the GST/HST; however, it applies to taxable supplies made in Quebec.

Provincial sales taxes (PST) are sales and use taxes, applicable to retail sales of tangible personal property, software and certain enumerated services. PST only applies in the provinces of British Columbia, Manitoba and Saskatchewan.

This chart summarizes the core sales taxes and general rates across Canada:

<b>Province/Territory</b>	<b>PST/Provincial Component of HST (and Type)</b>	<b>Federal Component (GST)</b>	<b>Total</b>
<b>British Columbia</b>	7%/8% (PST)*	5%	12%
<b>Alberta</b>	N/A	5%	5%

<b>Saskatchewan</b>	6% (PST)	5%	11%
<b>Manitoba</b>	7% (PST)	5%	12%
<b>Ontario</b>	8% (HST)	5%	13%
<b>Québec</b>	9.975% (QST)	5%	14.975%
<b>New Brunswick</b>	10% (HST)	5%	15%
<b>Nova Scotia</b>	10% (HST)	5%	15%
<b>Prince Edward Island</b>	10% (HST)	5%	15%
<b>Newfoundland</b>	10% (HST)	5%	15%
<b>Yukon Territory</b>	N/A	5%	5%
<b>Northwest Territories</b>	N/A	5%	5%
<b>Nunavut Territory</b>	N/A	5%	5%

\*Note: The general British Columbia PST rate is 7%; however, the rate is 8% for accommodation services.

In addition to the above taxes, certain provinces and municipalities apply additional taxes on the supply of accommodations.

These various sales taxes are described in further detail below.

## **GST/HST**

Broadly speaking, Canada's GST/HST is a tax on consumption. Most goods and services supplied in Canada are subject to GST/HST. A person who supplies goods and/or services in Canada may have to charge GST/HST and remit this to the Canadian tax authority.

GST/HST generally applies to supplies of Canadian short-term accommodations (*i.e.*, rentals for periods less than 30 continuous days), at the GST/HST rate applicable in the province in which the property is located.

### **Do I need to collect GST/HST from guests if I am supplying short-term accommodations in Canada?**

Under current rules, you are generally required to register for GST/HST if your annual GST/HST-taxable sales (whether from short-term accommodations and/or other taxable activities) exceed \$30,000 in a 12-month period (note that the 12 month period is not based on one calendar year and may span two calendar years). If you are registered for GST/HST, you are required to collect GST/HST on your supply of Canadian short-term accommodations and remit it to the Canadian tax authority.

However, under [recent changes](#) made to the GST/HST rules in Canada, online accommodation platforms can collect GST/HST on accommodation fees in some circumstances. For more information on this, we refer to [this website](#). Airbnb, as an online accommodation platform,

collects GST/HST in Canada on certain transactions. If you are **not** GST/HST-registered, Airbnb will collect GST/HST on the accommodation fees that you charge on your supply of Canadian short-term accommodations and remit that GST/HST directly to the Canadian tax authority. Therefore, you have no filing obligation in this regard. However, if you **are** GST/HST-registered, the obligation to collect GST/HST on your supply of accommodations and remit that GST/HST to the Canadian tax authority remains with you – not Airbnb. For more information on this, we refer to [this website](#).

### **I am required to collect GST/HST. How do I determine how much GST/HST I need to collect from my guests?**

Suppliers of taxable short-term accommodations that are required to collect GST/HST need to determine the rate of the GST/HST that applies and collect tax at the correct rate. GST/HST rates differ across jurisdictions and change periodically. We recommend that you check on a regular basis with the Canadian tax authority to get the most up to date GST/HST rates.

The GST/HST rates that currently apply are as follows:

- 5%, if the accommodation is situated in Quebec, Manitoba, British Columbia, Saskatchewan, Alberta, Yukon, the Northwest Territories or Nunavut;
- 13% if the accommodation is situated in Ontario; and
- 15% if the accommodation is situated in Nova Scotia, New Brunswick, Prince Edward Island or Newfoundland and Labrador.

### **I am required to collect GST/HST and/or QST. How do I collect GST/HST and/or QST from guests?**

If you determine that you need to charge GST/HST on the supplies that you make to guests, you have to collect this GST/HST from your guests and report and remit it on a periodic GST/HST return. You'll need to provide your GST/HST and/or QST ID to Airbnb so that Airbnb won't collect and remit these taxes on top of your accommodation price. If you self-collect GST/HST, and/or QST, please provide this information to avoid changes to your pricing. For further guidance, please see our help center article.

Once registered for GST/HST, the Canadian tax authority will assign you a filing frequency, which can be monthly, quarterly, or annually. Monthly and quarterly filers are required to file returns by the last day of the month following that period (e.g., a June or Q2 GST/HST return is due to be filed by July 31), with the GST/HST remittance payment required to be made on the same day that the GST/HST return is required to be filed. Annual filers are required to file returns and remit funds within 3 months following the fiscal year (except for individual annual filers with December 31 fiscal year ends, who are generally required to file by June 15 of the following year, with a payment deadline of April 30).

For further guidance on filing returns, please see the Canadian tax authority's [website](#).

Note that if you are registered for GST/HST, you may be able to claim input tax credits in your GST/HST returns, for GST/HST paid on expenses related to your offering of short term accommodations.

Note that the Quebec tax authority administers the GST/HST in Quebec.

## **QST**

QST is virtually identical to the GST/HST; however, it applies to supplies made in Quebec. Accordingly, both 5% GST and 9.975% QST will generally apply to supplies of short term accommodations in Quebec. Comments above regarding the GST/HST effectively apply identically for QST purposes.

## **Provincial Sales Tax - British Columbia, Saskatchewan and Manitoba**

British Columbia, Saskatchewan and Manitoba each impose a provincial sales tax or retail sales tax on most sales of tangible personal property and certain specified enumerated services within the particular province. British Columbia, Saskatchewan and Manitoba each levy PST on short-term accommodations provided in those provinces, unless a specific exemption applies, at rates of 8%, 6% and 7%, respectively.

### ***What are my obligations with respect to PST?***

Airbnb collects all applicable PST in respect of accommodations in British Columbia, Saskatchewan and Manitoba and reports and remits the PST directly to the tax authority in each of those provinces. You are not required to collect PST on any accommodations that are arranged and paid through the Airbnb platform; however, you may have obligations with respect to this tax (e.g., registration, collection, reporting, remittance) for accommodations that are not arranged or paid for through the Airbnb platform.

## **Accommodation Taxes**

A number of provincial and local jurisdictions impose additional taxes on accommodations. Airbnb collects and remits the following such taxes listed [here](#).

Airbnb does not collect any taxes imposed at the provincial and local jurisdictions that are not contained in the aforementioned list. Therefore, you may be required to register for, collect and remit such taxes. You should contact your local municipality and province to confirm whether a tax applies and whether you are responsible for collection and remittance of such taxes.



