

## **USING THE PRINCIPAL RESIDENCE EXEMPTION WHEN TRANSITIONING TO RETIREMENT LIVING**

Tim Brisibe / July 26, 2018

In today's Canada, where those aged 65 years and older outnumber those aged 14 and younger, adult children are increasingly faced with the challenge of assisting an aged parent with the possible transition from their homes to what's known as a collective dwelling.

Based on the last census, more than 425,000 Canadians aged 65 and older live in collective dwellings: nursing homes, long-term care facilities and seniors' residences. The Conference Board of Canada projects that this number will exceed 610,000 by 2026.

For seniors contemplating a move to collective dwelling, they or their children must decide what to do with their principal residence and should understand the related tax and estate implications.

The principal residence usually represents significant value and occupies a central place in estate planning, particularly as the senior contemplates a permanent transition to a collective dwelling, or ultimately upon his or her death. Many seniors may expect their former home to qualify for the principal residence exemption (PRE) throughout their stay in a collective dwelling.

This concern is certainly more pronounced for a single individual or a surviving spouse or common-law partner. From a tax perspective, the home must qualify as a principal residence in order to be exempt from capital gains tax when disposed or deemed disposed, which requires the taxpayer (or taxpayer's child) to ordinarily inhabit the property. Consequently, the taxpayer will not meet the criteria for the tax years spent living in a collective dwelling. This fact catches many families off-guard when a parent dies or the home is sold.

To avoid such a surprise, here are some considerations to help in discussions with your clients and their families as they explore the possibility of transitioning to collective dwelling living.

### **SELL THE HOME**

The default option is to sell the senior's principal residence, especially if they require the proceeds of sale to fund their new collective living lifestyle. In this case, they can use the PRE to minimize or eliminate any capital gains tax on the property. Additionally, the proceeds could be used to provide an early inheritance for children or other beneficiaries.

### **HAVE AN ADULT CHILD RESIDE IN THE HOME**

If a parent does not wish to sell the property, or they are indecisive while in collective living, they may wish to take advantage of the “ordinarily inhabited” rule by having an adult child occupy the home during this period. In such a scenario, the home can still be designated as the parent’s principal residence for the period when the adult child lives at the property. The onus is on the adult child to ensure this decision makes sense based on their personal circumstances.

### **AGING IN PLACE**

A senior may prefer to reside in their principal residence when a live-in caregiver can be retained. This may require renovations to accommodate potential physical limitations. Federal and provincial non-refundable tax credits may be available to assist Canadians when considering this option. This allows the senior to maintain their current lifestyle while still benefiting from the PRE.

### **RENT OUT THE HOME (CHANGE IN USE)**

If the homeowner does not wish to sell the home but still requires another income stream to fund the collective living lifestyle, they may consider renting the home. For income tax purposes, this means converting the principal residence into an income-producing property.

Original Article

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