

Underused Housing Tax – the Federal one!

The Underused Housing Tax (“UHT”) is a new Federal tax of 1% on the value of vacant or underused housing in Canada that took effect on January 1, 2022. In reading that first line, you probably think this doesn’t apply to you. Think again. Think of penalties of \$5,000 for individuals and \$10,000 for corporations.

There are many situations where there will be an exemption from this 1% tax, but you’d still be required to file the new UHT annual return (UHT-2900) or be assessed those penalties. We’ve heard of many cases in the past where people have been assessed a \$1,500 penalty for not filing a T1135 form reporting their foreign assets, even though they declared all the income on those foreign assets. So don’t assume CRA won’t assess those penalties, just because you qualify for an exemption from this tax.

There are many details about this new tax and its exemptions. Here are a few key points to consider:

- Only residential properties are affected – detached or semi-detached homes that contain 3 dwelling units or less; a townhouse; a condo; duplexes and triplexes.
- Canadian citizens and permanent residents qualify for an exemption from the 1% tax and filing of the annual return – but this exemption doesn’t apply if you are a partner of a partnership, or a trustee (other than a personal representative for a deceased taxpayer).
- There’s no exemption from filing the return for private corporations.
- Don’t confuse this tax with other “vacancy” taxes on residential properties that are provincial or municipal-based. This is a federal tax.
- There is no time limit for the CRA to assess the UHT, penalties, and interest.

The first UHT return is due on April 30th, 2023, for residential properties held as of December 31, 2022. Contact your Padgett advisor to discuss your situation.