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AND RENTAL  
INCOME**

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# FOREWORD

If you earned income from the rental of immovable property during a taxation year, this brochure is for you. It contains general information on the tax treatment of income and expenses related to the rental of such property, and will help you determine the amounts you must include in calculating your rental income and deductible expenses for the year.

This brochure does not cover all situations. For further information, contact us at one of the addresses or numbers listed on the back.



# GLOSSARY

**Capital cost allowance (CCA)**

Allowable annual deduction designed to compensate for the diminishing value of depreciable property.

**Capital expenditure**

Expense incurred to acquire, improve or make an addition to property.

**Current expense**

Expense incurred to earn rental income (for example, expenses incurred to repair or maintain property, electricity and heating costs, and property taxes).

**Disposition**

Generally, the sale of property or any transaction that gives entitlement to the proceeds of disposition of the property (money, etc.).

**Net rental income**

Gross income from the rental of immovable property, minus capital cost allowance for this property and the expenses incurred during the year to earn this income.

**Proceeds of disposition**

Generally, the selling price of the property. Also includes compensation received for expropriated, destroyed, damaged or stolen property.

**Rental income**

Gross income from the rental of immovable property, as well as all income related to the rental of such property, such as,

- any amount received for cancelling or extending a lease or sublease;
- profits from services offered to tenants (vending machines, washers and dryers); and
- income from the rental of signs or parking spaces.

**Rental loss**

Amount by which rental expenses exceed rental income.

**Rental property**

Immovable property (building, house, apartment, room, space in an office building, etc.) that is rented in order to provide its owner(s) with income.

You must report your net rental income in your income tax return.



# DOCUMENTS TO ENCLOSE WITH YOUR INCOME TAX RETURN

If you earn rental income from immovable property that you own or co-own, you must include your net rental income in calculating the total income to report in your income tax return. You must also enclose with your income tax return **one** of the following documents: your financial statements (the document must indicate your rental income and expenses) or a duly completed copy of form TP-128-V, *Income and Expenses Respecting the Rental of Immovable Property*.

If you choose to enclose form TP-128-V with your return, you must complete **a separate copy of the form** (parts 1, 2, 4 and 5) for each immovable. Complete Part 3 of the form **only once** for all your immovables, as it is a summary of your total income from **all** your immovables. Form TP-128-V is available on our website at [www.revenuquebec.ca](http://www.revenuquebec.ca) or by contacting us.



# COSTS INCURRED FOR WORK CARRIED OUT ON YOUR PROPERTY

If you incurred costs during a taxation year for the renovation, improvement, maintenance or repair of an immovable you rent out to earn income, you must complete form TP-1086.R.23.12-V, *Costs Incurred for Work on an Immovable*, and enclose it with your income tax return. The form is available on our website. Even if you are not required to file an income tax return for the year, you must file form TP-1086.R.23.12-V by the filing deadline for the return.

On the form, you must provide the required information concerning every individual or business that carried out the work, unless the work was done by

- an operator of a gas, telecommunications or electricity distribution network;
- a government body;
- you or one of your employees.

If you do not provide the required information on form TP-1086.R.23.12-V, you are liable to a penalty of \$200 for each individual or business for which the information is not provided. Similarly, any individual or business that fails to provide you with the information you need to complete the form is liable to a penalty of \$500.



If you use a rental property primarily to earn income and you carry out work to meet the needs of persons with disabilities, such as the installation of assistive devices or equipment, or carry out any other renovations or alterations for that purpose, you must complete form TP-157-V, *Eligibility Certificate for Renovation or Alteration Expenses*. **Do not** send us this form. However, you must keep it for your files in case we ask you to provide it. See the section entitled “Capital expenditures” for more information.



# CURRENT EXPENSES AND CAPITAL EXPENDITURES

As the owner of a rental property, you may have incurred

- **current expenses** to maintain or repair your property; or
- **capital expenditures** to increase the property's value.

Here a distinction must be drawn. As a rule, current expenses incurred during the year can be deducted from your rental income, while capital expenditures cannot.

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## Current expenses

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In general, current expenses serve to maintain or repair property that is complete in itself (not its component parts). Such expenses are recurring because the maintenance and repair work to which they relate provide no enduring benefit. They can usually be deducted from your rental income, with certain exceptions.

### Deductible current expenses

Current expenses that can be deducted from your rental income include the following:

- maintenance and repair costs incurred to restore a building to its original condition. For example, if you incurred expenses to replace all the windows of your building or to restore its roof, plumbing or balconies to their former condition, you can deduct these expenses. If you did the repairs yourself, you can deduct the cost of materials but not the value of your labour;



- borrowing costs or expenses incurred to obtain a mortgage loan or any other loan for the purpose of purchasing, maintaining or improving rental property. These costs or expenses are deductible in equal amounts over a five-year period. If you repay the loan before the end of the five-year period, you may, for the year in which the loan is repaid in full, deduct any portion of the borrowing costs or expenses not previously deducted;
- advertising expenses incurred to attract tenants;
- insurance premiums and property taxes relating to the property;
- interest on loans taken out to purchase, maintain or improve the property;
- expenses for landscaping the grounds around the property, with the exception of sidewalks, paths, parking areas and retaining walls, where the property is used primarily to earn rental income;<sup>1</sup>
- expenses incurred to rent out the land only;
- the cost of bookkeeping services and fees paid to have books and accounting records audited;
- legal fees (except those related to the purchase or sale of the property);
- salaries, wages and other remuneration paid to persons responsible for maintaining or operating the property;
- the cost of heat, electricity and water.

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1. For more information, see interpretation bulletin IMP.157-1/R2, *Cost of Landscaping and of Clearing and Levelling Land*.



## Non-deductible current expenses and exceptions

Some current expenses cannot be deducted from your rental income for the taxation year.

These expenses relate to the construction, renovation or alteration of a building with regard to

- the land on which the building is situated;
- the adjoining land necessary for the use of the building (where the adjoining land is to be used, for example, for a parking area, driveway, yard or garden).

You must include these non-deductible expenses in the capital cost of the property.

Exceptionally, expenses related to the construction, renovation or alteration of a building can be deducted if the work temporarily prevented one or more units from being rented. In this case, the expenses are considered soft costs and therefore fall under the “put in use” rule (see the section entitled “Capital cost allowance [CCA]”). As a result, they must not create or increase a rental loss.

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## Capital expenditures

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Capital expenditures are incurred to acquire, improve or make an addition to property that results in an enduring benefit. As a rule, you cannot deduct them from your rental income and must add them to the capital cost of the property, with a few exceptions.



## Non-deductible capital expenditures

Non-deductible capital expenditures include

- the acquisition cost of a rental property;
- the cost of necessary repairs or renovations before a newly purchased property can be rented (such work restores the property to its normal value, if it was purchased at a price that is less than its normal value);
- legal and engineering fees, and other expenses related to the purchase of the property (transfer duties, relocation costs, etc.);
- the purchase price of items rented out with the property (for example, the stove, refrigerator and furniture in a furnished apartment) and of any replacements;
- the cost of adding a fireplace (this is a capital expenditure because it increases the normal value of the property);
- the cost of adding a garage (this is a capital expenditure because it creates new property).

All these expenditures (but not the cost of the land) increase the capital cost of the rental property and give entitlement to capital cost allowance (CCA). They may therefore be included in the calculation of CCA in Part 4 of form TP-128-V, *Income and Expenses Respecting the Rental of Immovable Property*. For more information, see the section entitled “Capital Cost Allowance (CCA).”



## Deductible capital expenditures

You can deduct certain capital expenditures for the taxation year instead of adding them to the capital cost of the rental property.

The expenditures must have been incurred to renovate or alter a building to allow an individual with a mobility impairment to access the building or move about inside it. Eligible renovations or alterations include

- the installation of a manually controlled electric door opener;
- the installation of ramps inside and outside the building;
- the alteration of a bathroom, an elevator or a door to facilitate the use thereof by a person in a wheelchair.

Other expenditures incurred to meet the needs of persons with an impairment may also be deducted. Such expenditures must relate to the acquisition or installation of

- floor indicators for an elevator car (braille panels or audible signals) intended for persons with a visual impairment;
- visual fire alarms for persons with a hearing impairment;
- listening devices or telephones intended for persons with a hearing impairment;
- computer software or equipment for certain persons with limitations.

If you use a rental property primarily to earn income and you incur such expenditures, you must complete the *Eligibility Certificate for Renovation or Alteration Expenses* (form TP-157-V) and keep it for your files in case we ask you to provide it.



# OTHER PROPERTY RENTAL EXPENSES

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## Motor-vehicle expenses

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If you earn income from a **single** rental property located in the same area as your home, you can deduct a reasonable amount for motor-vehicle expenses, provided you used your vehicle to transport tools or materials in order to personally carry out some or all of the repairs or maintenance. If that condition is not met, these expenses are considered personal expenses and are not deductible.

If you derive income from **two or more** rental properties, you can deduct a reasonable amount for motor-vehicle expenses (whether or not the properties are located in the same area as your home), provided you used your vehicle to collect rent, supervise repair work or generally manage your rental properties.



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## Expenses incurred to rent out vacant land<sup>1</sup>

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If you earn income by renting out vacant land, you can deduct

- the interest accrued on any loans you took out to buy the land;
- the property taxes (including school taxes) paid to a municipality.

However, you cannot deduct the duties on the transfer of an immovable.

The total amount you can deduct for these two types of expenses is limited to the amount of rental income left after you deduct all other expenses. The amount you deduct cannot create or increase a rental loss, nor can it be used to reduce other sources of income.

Note that the portion of such expenses that you cannot deduct must be added to the cost of the land. This will result in either your capital gain being decreased or your capital loss being increased when you dispose of the land.

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## Personal-use portion of rental expenses

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If you rent out a portion of the building in which you live, you are earning rental income that must be reported. However, you can deduct reasonable expenses incurred to earn the income.

Expenses related **exclusively to the rented portion** of the building can be deducted in full.

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1. For more information, see interpretation bulletin IMP.164-1/R1, *Tax Treatment of Certain Expenses (Interest and Property Taxes) in Relation to Land*.



Expenses related to the **entire building** must be broken down into rental expenses and your personal-use expenses, using any reasonable basis for your calculations, such as the surface area or the number of rooms rented in the building.

If you have boarders or roomers, you can deduct a portion of the expenses related to the entire building. To calculate this amount, estimate the amount of time (as a percentage) spent by the boarders or roomers in the rooms of the building that are not rented out (the kitchen or living room, for example).





# CAPITAL COST ALLOWANCE (CCA)

Capital expenditures cannot be deducted in full for the taxation year in which they were incurred. However, you may deduct capital expenditures over a number of years by claiming an annual amount as capital cost allowance (CCA).

To calculate your allowable CCA, complete Part 3 of form TP-128-V, *Income and Expenses Respecting the Rental of Immovable Property*. Complete Part 3 only once for all your rental properties.

Next, enter the CCA you are claiming on line 500 (Part 4 of form TP-128-V). The amount you claim must not be greater than the amount of rental income left after you deduct all other expenses.

If you can claim only a portion of the CCA to which you are entitled, you must adjust the amounts in columns 9 and 10 in Part 4 of form TP-128-V to reflect the amount actually claimed on line 393.

You are not obliged to claim CCA. There are even some situations in which it would not be to your advantage to do so, for example, if you have no income tax payable. If you are not claiming CCA, do not enter an amount in column 6, 7, 8 or 9 of the work chart in Part 4 of form TP-128-V.

The CCA rate depends on the class of property you rent. The CCA rates for the main classes of rental property are given in the section entitled "CCA rates for the main classes of rental property." Be sure to give the class of your rental property in column 1 of the work chart in Part 4 of form TP-128-V.



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## **“Put in use” rule**

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You may begin calculating CCA on a property on the date on which you put the property in use in order to earn rental income. This date may vary. For more information on the “put in use” rule, contact us.

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## **Year and cost of acquisition of a rental property**

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Do not enter anything in column 2 of Part 4 of form TP-128-V for the year in which you acquired a rental property.

The acquisition cost of a rental property (the amount in column 3) includes the purchase price of the property, the accounting and legal fees related to the purchase, and the cost of additions made to the property in the year of acquisition. To calculate your CCA, divide the cost of net acquisitions for a class of property (subtract column 4 from column 3) by two. Enter the result in column 6.

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## **Personal use of a rental property**

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If you make personal use of a property from which you also derive rental income, only the portion of the capital cost corresponding to the portion of the property rented out gives entitlement to CCA. You may not claim CCA with respect to the portion of the property in which you live.



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## Land

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Since land is not depreciable property, it does not give entitlement to CCA. If you purchased a rental property comprising land and a building, you can claim CCA only for the portion of the acquisition cost corresponding to the building. Refer to the purchase agreement for the portion of the acquisition cost corresponding to the land. You can also consult the municipality's assessment roll to find out the value of the land in relation to the total value of the rental property.

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## CCA rates for the main classes of rental property

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If you own a number of rental properties in the same class, you must generally claim CCA on the total capital cost of all those properties. However, if you acquired your properties after 1971 at a cost of \$50,000 or more, you must place each property in a separate class. You can do this by placing, for example, a letter after the property class number: 3A, 3B, 3C, etc.

The classes of property and corresponding CCA rates are listed below.



### **Class 1: Rate of 4%**

Class 1 property includes sidewalks and parking areas acquired before May 26, 1976, as well as class 3 buildings acquired after 1987, except the following buildings, which belong in class 3 or 6 (as applicable):

- buildings acquired under a written agreement entered into before June 18, 1987; or
- buildings that were under construction on June 18, 1987.

Class 3 and class 6 property acquired before 1988 remain in those classes; do not transfer such property to class 1. However, additions or alterations made to class 3 buildings must be included in class 1 if the cost of all the additions or alterations exceeds the lesser of the following amounts:

- \$500,000;
- 25% of the capital cost of the building on December 31, 1987, and of the additions or alterations made after 1987, or, if the building was under construction on December 31, 1987, 25% of the building's capital cost on the date construction was completed.

### **Class 3: Rate of 5%**

Class 3 property includes most buildings acquired after 1978 but before 1988, except those specifically included in another class. Component parts of these buildings—wiring, lighting fixtures, plumbing, automatic fire sprinkler systems, heating and air-conditioning equipment, elevators and escalators—are also included in this class.



## **Class 6: Rate of 10%**

Class 6 property includes wooden, log, stucco, galvanized iron and corrugated iron buildings (and their component parts), provided they were

- acquired before 1979, or after 1978 pursuant to a written agreement entered into before 1979; or
- built without foundations or other underground base support.

Certain additions or alterations made to class 6 buildings after 1978 may be included in class 3 rather than class 6. If you acquired a building before 1979, add the first \$100,000 of the cost of additions and alterations made after 1978 to class 6, and any amount in excess of this first \$100,000 to class 3. If the building has no foundations or other underground base support, include the total cost of the additions and alterations in class 6.

## **Class 8: Rate of 20%**

Class 8 comprises property that you use in the operation of your rental property and that is not included in another class (e.g., furniture, appliances, fixtures, outdoor notice boards or billboards, machinery and equipment).

## **Class 17: Rate of 8%**

Class 17 includes sidewalks and parking areas acquired after May 25, 1976.



## Sample calculation of capital cost allowance and net rental income

In 2008, you acquired a rental property for \$130,000. The building was worth \$100,000 and the land \$30,000. You made no additions. Half of the building is reserved for your personal use.

### Capital cost allowance (CCA)

The following is a sample calculation of CCA for the building for 2011.

Cost of the rental property		\$130,000
Cost of the land	–	\$30,000
Cost of the building		\$100,000
Cost related to the personal-use portion of the building (50%)	–	\$50,000
CCA previously claimed	–	\$2,000
Undepreciated capital cost (UCC) at the beginning of the period		\$48,000
CCA rate	x	4%
<b>CCA</b>		<b>\$1,920</b>





## Net rental income or net rental loss

The following is a sample calculation of your net rental income or loss for 2011.

		<b>Scenario 1</b>	<b>Scenario 2</b>
Gross rental income		\$6,000	\$2,000
Total expenses (excluding CCA)	\$5,000		
Expenses applicable to personal-use portion (50%)	– \$2,500		
Expenses applicable to portion rented out	\$2,500	– \$2,500	– \$2,500
<b>Net income (or net loss) before CCA</b>		<b>\$3,500</b>	<b>(\$500)</b>
CCA (calculated in the table on the previous page)		– \$1,920	—
<b>Net rental income (or loss)</b>		<b>\$1,580</b>	<b>(\$500)</b>



# DISPOSITION OF A RENTAL PROPERTY

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## Capital gain

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Any profit you realize on the disposition of rental property constitutes a capital gain, a portion of which must be reported on line 139 of your income tax return.

For more information, consult the brochure *Capital Gains and Losses* (IN-120-V).

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## Recapture of capital cost allowance

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If you dispose of a rental property for **more than the purchase price**, you must add to your rental income for the year of disposition not only a capital gain, but also an amount representing the recapture of capital cost allowance. This amount is equal to the difference between the capital cost (the purchase price of the property) and the undepreciated capital cost of the property when you disposed of it. The recapture of CCA therefore corresponds to the total CCA you claimed with regard to the property since purchasing it. Calculate this amount in column 5 of the CCA work chart (Part 4 of form TP-128-V, *Income and Expenses Respecting the Rental of Immovable Property*) and carry the result to line 375 in Part 2 of the form.

If you dispose of a rental property for **less than the purchase price** but more than the undepreciated capital cost, there is no capital gain and only the amount representing the recapture of CCA must be included in your income. In this case, the recapture of CCA is equal to the difference between the proceeds of disposition (sale price) and the undepreciated capital cost.

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## Terminal loss

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If the proceeds of disposition of your rental property are less than the undepreciated capital cost of the property, the difference between the two amounts is a terminal loss. Calculate this loss in column 5 of the CCA work chart (Part 4 of form TP-128-V). This loss may be subtracted on line 377 in Part 2 of the form, provided there is no property left in the class.

The following example will help you determine the amounts to be included in your income when you dispose of a rental property. This example applies only to rental property acquired after 1971.



**Example**

You acquired a building for \$100,000 in 1990 and used half of the building as your residence. You disposed of the building after October 17, 2000, for \$170,000, paying a commission of \$9,000 at the time of disposition.

	<b>Building</b>		<b>Land</b>	
Acquisition cost of the portion of the property used for rental purposes (\$100,000 x 50% = \$50,000)		\$37,500		\$12,500
Accumulated CCA at the time of disposition	–	\$2,000		
Undepreciated capital cost		\$35,500		
Gross proceeds from the disposition of the portion of the property used for rental purposes (\$170,000 x 50% = \$85,000)		\$63,000		\$22,000
Commission (\$9,000 x 50% = \$4,500)	–	\$3,500	–	\$1,000
Net proceeds from the disposition of the portion of the property used for rental purposes		\$59,500		\$21,000
Cost of the rental property	–	\$37,500	–	\$12,500
Capital gain		\$22,000		\$8,500
Percentage applicable after October 17, 2000	x	50%	x	50%
Taxable capital gain		\$11,000		\$4,250
<b>You must therefore include the following additional income in your income for the year of disposition:</b>				
Recapture of CCA		\$2,000		—
Taxable capital gain	+	\$11,000	+	\$4,250
Additional income		\$13,000		\$4,250



# RENTING OUT A RESIDENCE

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## Renting out your entire residence

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If you decide to rent out the residence you own and live in, a change in use occurs. Accordingly, when you begin renting out your residence, you are deemed to have disposed of it at its fair market value and to have reacquired it immediately afterwards at the same price. No tax is payable on the capital gain realized on the deemed disposition of a property considered to have been your principal residence since you acquired it. When you cease to rent out the property, another deemed disposition occurs, and any increase in the fair market value of the property since the initial change in use constitutes a capital gain.

If you convert your principal residence into income-producing property, you must complete form TP-274-V, *Designation of Property as a Principal Residence*, and enclose it with your income tax return for the year in which the change in use took place.

Despite the change in use and the deemed sale, you may make an election under federal legislation not to enclose a duly completed copy of form TP-274-V with your income tax return. For more information, consult the brochure *Capital Gains and Losses* (IN-120-V).

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## Renting out a portion of your residence

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If you rent out a portion of your residence (for example, one or two rooms to boarders), it does not lose its status as your principal residence. However, you may not claim capital cost allowance on the portion rented out.

If you **occasionally** rent out rooms (for example, during an annual festival), you are not required to include this rental income in your income if **both** of the following conditions are met:

- the rental period does not exceed 20 days for the year; and
- you receive no other income from room rentals.

## THE RL-15 SLIP

The RL-15 slip provides each member of a partnership with information concerning the partnership's operating results (e.g., income and losses) and the amounts allocated to that partner for the fiscal period.

If you are a member of a partnership that earned rental income and you did not receive an RL-15 slip, you must enclose the partnership's financial statements with your income tax return.



## SUPPORTING DOCUMENTS

You are not required to enclose supporting documents with your income tax return. However, you must keep proof of the expenses you incurred in order to earn rental income since we may require you to provide such proof in order to establish whether the expenses are deductible. The deduction you are claiming may be disallowed if you are unable to substantiate your expenses with supporting documents.

You must also keep the invoices for your capital expenditures since they are taken into account in determining the cost of the property. We may need to check the invoices at the time the property is disposed of.

# TO CONTACT US

## Online

[www.revenuquebec.ca](http://www.revenuquebec.ca)

## By telephone

Monday, Tuesday, Thursday and Friday: 8:30 a.m. to 4:30 p.m.  
Wednesday: 10:00 a.m. to 4:30 p.m.

### Individuals and individuals in business

Québec City	Montréal	Elsewhere
<b>418 659-6299</b>	<b>514 864-6299</b>	<b>1 800 267-6299</b> (toll-free)

### Businesses, employers and agents for consumption taxes

Québec City	Montréal	Elsewhere
<b>418 659-4692</b>	<b>514 873-4692</b>	<b>1 800 567-4692</b> (toll-free)

### Persons with a hearing impairment

Montréal	Elsewhere
<b>514 873-4455</b>	<b>1 800 361-3795</b> (toll-free)

## By mail

### Individuals and individuals in business

#### Montréal, Laval, Laurentides, Lanaudière and Montérégie

Direction principale des services  
à la clientèle des particuliers  
Revenu Québec  
C. P. 3000, succursale Place-Desjardins  
Montréal (Québec) H5B 1A4

#### Québec City and other regions

Direction principale  
des services à la clientèle  
des particuliers  
Revenu Québec  
3800, rue de Marly  
Québec (Québec) G1X 4A5

### Businesses, employers and agents for consumption taxes

#### Montréal, Laval, Laurentides, Lanaudière, Montérégie, Estrie and Outaouais

Direction principale des relations  
avec la clientèle des entreprises  
Revenu Québec  
C. P. 3000, succursale Place-Desjardins  
Montréal (Québec) H5B 1A4

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la clientèle des entreprises  
Revenu Québec  
3800, rue de Marly  
Québec (Québec) G1X 4A5

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