# The Principal Residence Exemption

This article provides a helpful overview of the principal residence exemption (PRE), including what it is, how it can be claimed, and how it can be most effectively used by homeowners who own multiple properties.

## What is the PRE?

The PRE is **an exemption that can be claimed to eliminate capital gains realized on the sale of a property that has been designated as a taxpayer's principal residence.** Since homes are the single largest asset for many Canadians, the PRE is an incredibly important tax savings tool.

## Can I claim the PRE on multiple properties?

No – the PRE can only be claimed in respect of **one property per year.**

If for example you purchased a home in Montreal in 2010 and a condo in Quebec City in 2013, and both properties were sold in 2026, you would typically claim the PRE in respect of the Montreal home for 2010 – 2012 (since that was the only property owned during those years). For 2013 – 2026, you would have to choose whether to designate the Montreal home or the Quebec City as your principal residence.

Note that this rule applies to all properties owned within a taxpayer's family unit within a year. A family unit includes the taxpayer's spouse or common-law partner throughout the year (unless they were living apart under a written separation agreement), and generally also includes their minor children.

In the above example, if the two properties were not owned by a single taxpayer, but rather the Montreal home was owned by a taxpayer (Elaine) and the Quebec City was owned by her spouse (Richard), the same restrictions on claiming the PRE would apply. In effect, Elaine and Richard would have to choose how to allocate one PRE between the two of them.

## What types of property can the PRE be claimed on?

The PRE can be claimed on the following types of property:

- a housing unit (including a house, an apartment, a cottage, a mobile home, a trailer or a houseboat),
- a leasehold interest in a housing unit, or
- a share of the capital stock of a co-operative housing corporation.

A taxpayer's principal residence generally includes the land upon which the housing unit is situated.

However, if a taxpayer owns a large property and the total land size exceeds one-half hectare, the excess land is generally considered *not* to qualify for the PRE, unless the taxpayer establishes that this excess land was necessary for the use and enjoyment of their property (e.g. land for a driveway without which the housing unit would be inaccessible).

In order to claim the PRE on the sale of a property, the property must have been **ordinarily inhabited** in the year by the taxpayer who sold the property, or by his or her spouse or common-law partner, former spouse or common-law partner, or child.

## What if my property also generates rental income?

If your main reason for owning a property is to gain or produce income from the property, and you only inhabit it for a short period of time in the year, then you will generally *not* be considered to "ordinarily inhabit" that housing unit in the year, and you would not be able to claim the PRE upon the sale of the property. For example, this might be the case where you own a cottage that you rent through sites such as Airbnb and VRBO to generate rental income, and you also use the cottage personally for a couple of weeks each year.

The main reason for owning a property is a question of fact, but a person receiving only *incidental* rental income from a housing unit is not considered to own the property mainly for the purpose of gaining or producing income, and could still potentially claim the PRE.

If you have a property that generates rental income that you also use personally, speak with your tax accountant or advisor to determine whether you may be eligible to claim the PRE on the sale of the property.

## If I own a home and a cottage, do I have to claim PRE on my home?

It's a common misconception that the PRE can only be claimed on your *primary* residence. In fact, you can potentially claim the PRE on any property that you ordinarily inhabited during the year, even if that property was not your primary residence.

Whether a property is ordinarily inhabited in a taxation year is a question of fact, but if for example you own a home in Toronto and a cottage in Muskoka, and the home in Toronto is your primary residence but you typically spend 6-8 weeks each summer at your cottage in Muskoka, you may still be considered to ordinarily inhabit the cottage in Muskoka. As a result, you could designate the Muskoka cottage as your principal residence in order to claim the PRE on its sale.

## What if I change the use of my property?

If you originally purchased a property to live in as your principal residence, and you later move out of the property and begin renting it, this change in use of the property normally results in a deemed disposition for tax purposes in the year in which the change occurs.

Similarly, if you originally purchased a property for income-generating purposes and subsequently stop renting the property and move into it, this normally also results in a deemed disposition for tax purposes. There can also be a deemed disposition following a partial change in use of a property (e.g. if you convert the basement of your home into a separate rental suite).

In these circumstances, reporting (and paying tax on) the deemed disposition may be required in the year that the change in use occurs. However, there are special tax elections[1] that can be filed that can defer the requirement to report the gain, and these elections may also allow the PRE to be claimed in respect of the property for up to four years following or prior to the change in use (when the property otherwise wouldn't qualify as "ordinarily inhabited" by the taxpayer or their family unit).

If you are planning to change the use of a property that you currently own, speak with your tax accountant or advisor to determine what your reporting obligations are, and whether you can file a ss.45(2) or ss.45(3) election to defer the associated tax and increase the availability of the PRE in respect of the property.

[1] A ss.45(2) election, for a change in use of a property from personal-use to income producing, and a ss.45(3) election, for a change in use of a property from income-producing to personal use.

## Who can claim the PRE?

The PRE can be claimed by individuals. While non-resident individuals can potentially claim the PRE if they have a property that they (or a qualifying family member) ordinarily inhabit in Canada, the PRE claim will be limited to the years for which the individual was resident in Canada.

The PRE can also be claimed by certain personal trusts that meet specific criteria[2]. For tax years beginning after 2016, there are additional restrictions on the types of trusts that can claim the PRE (in particular, family trusts are no longer able to claim the PRE for taxation years after 2016). If you have real property held in a trust that could potentially qualify as a principal residence, speak with your accountant or tax advisor to determine whether the trust is eligible to claim the PRE.

Corporations are not eligible to claim the PRE.

## How is the PRE Claimed?

**In order to claim the PRE, a taxpayer must designate a property that has been sold as his or her principal residence for the year using prescribed forms** (and as noted above, no other property can have been designated as a principal residence by the taxpayer or a member of his family unit for that year).

If these prescribed forms are not filed, the PRE may be denied by the Canada Revenue Agency (CRA) and/or Revenu Québec, which could result in the gain on the disposition of the residence becoming taxable.

The form used to designate a property as a principal residence for individuals is Form T2091(IND) (and Form TP-274-V in Quebec)[3]. Individual taxpayers must also complete Schedule 3, Part 2 – Principal Residence. These forms must be completed and submitted with the taxpayer's T1 Income Tax and Benefit Return (TP-1 in Quebec) for the year of the disposition.

The CRA and Revenu Québec may accept late-filed principal residence designations, but they are not required to do so. Furthermore, significant penalties could apply to late designations. Thus, timely reporting is critical.

## What is the amount of the PRE that can be claimed?

The general formula for the PRE is as follows:

**A × (B ÷ C), where:**

A is the taxpayer's gain otherwise determined on the property.

B is:

- if the taxpayer was resident in Canada during the year of the purchase:
  - 1 + the number of tax years ending after the acquisition date for which the property was the taxpayer's principal residence and during which he or she was resident in Canada; or
- if the taxpayer was not resident in Canada during the year of the purchase:
  - the number of tax years ending after the acquisition date for which the property was the taxpayer's principal residence and during which he or she was resident in Canada.

C is the number of tax years ending after the acquisition date during which the taxpayer owned the property (whether jointly with another person or otherwise).

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[2] The criteria that a trust must meet in order to be eligible to claim the PRE are complicated, and beyond the scope of this article.

[3] Form T1079 (TP-274.F in Quebec) is used for principal residence elections made by personal trusts. Form T1255 (TP-274-V in Quebec) is used for the designation of a property as a principal residence by the legal representative of a deceased individual, to allow the PRE to be claimed following the deemed disposition of a taxpayer's principal residence upon their death.

▸ **Tip:** The "1+" in element B of the formula (for Canadian resident purchasers) provides an extra year of principal residence protection to address the common scenario where two homes are owned in one year, because an old home has been sold and a new home has been purchased shortly after.

▸ **Example**: Simon (a Canadian resident) purchased a condo in July of 2015 for $325,000. In April of 2026, he sold his condo for $549,000 and purchased a house for $700,000. He has never owned any other properties.

- In this example, Simon would designate his condo as his principal residence for 11 years, i.e. 2015 – 2025 (allowing the new home to be designated as his principal residence in the 2026 year, when it is eventually sold in the future, due to the "1+" rule).
- Simon's gain otherwise determined on the sale of his condo would be $224,000 ($549,000 - $325,000).
- His available principal residence exemption would also be $224,000, calculated as:

  A × (B ÷ C) = $224,000 x (12 / 12), where:

  A = $224,000 (as determined above)

  B = 12 (i.e. 1 + 11 years designated, i.e. 2015 - 2025)

  C = 12 (i.e. 2015 – 2026)

As a result, Simon should have no tax payable related to the sale of his condo. However, it is essential that he reports the disposition on his 2026 T1 and designates the condo as his principal residence.

## How should I decide which property to designate as my principal residence?

If you have multiple properties, in order to decide which property to designate as your principal residence for a particular tax year, you should typically compare the gain accrued *per year of ownership*, and designate the property that has the highest gain per year as your principal residence. This may or may not be the property that has the highest *overall* gain.

However, your decision may also be impacted by the timeline in which you plan to sell your properties, because current tax savings are more valuable than equivalent tax savings realized in the future.

If you are in this situation, speak with your accountant or tax advisor to determine the optimal strategy for you to claim the PRE, based on your specific facts.

▸ **Example**: Ronald and Lauren, aged 56 and 54, (both BC residents) married in 2001. They purchased their primary home in 2007 and a condo in 2012. Both properties have been ordinarily inhabited in each year of ownership. They are planning to sell the condo in 2026. They want to continue living in their home as long as possible. They want to know whether to claim the PRE on their condo when it is sold in 2026 or preserve the PRE for their primary home.

| | **House** | **Condo** |
|---|---:|---:|
| Purchase Price | $1,000,000 | $250,000 |
| Current FMV | $2,700,000 | $1,000,000 |
| Accrued Gain **(A)** | $1,700,000 | $750,000 |
| Year Purchased | 2007 | 2012 |
| Years Owned (to 2026) **(C)** | 20 | 15 |
| **Accrued Gain *per year owned*** | **$85,000** | **$50,000** |

The house has the highest accrued gain per year of ownership, so if *both* properties were being sold in 2026, it would make sense to designate the house as the principal residence from 2007 – 2025, and the condo in 2026, to maximize the overall PRE:

| Years PRE should be claimed (if both properties sold in 2026) | 2007 - 2025 | 2026 |
|---|---|---|
| Number of Years for PRE Claim | 19 | 1 |
| Number of Years Sheltered (+1) **(B)** | 20 | 2 |
| Gain Sheltered **A × (B ÷ C)** | \$1.7M x 20/20 = \$1.7M | \$750K x 2/15 = \$100K |
| Unsheltered Capital Gain | \$nil | \$650,000 |

Overall, this allocation would allow Ronald and Lauren to shelter \$1,800,000 of capital gains, including the entire capital gain on their house. Moreover, because of the "1+" in the formula, a portion of the gain on the condo can also be sheltered. However, this allocation would still leave \$650,000 of capital gains that will be realized on the sale of the condo in 2026 unsheltered. If Ronald and Lauren are both in the top marginal tax bracket in BC, this unsheltered capital gain could result in tax payable of ~\$174,000 in the near future.

Since Ronald and Lauren are not actually planning to sell both properties in 2026 (only the condo), they may instead choose to designate the condo as their principal residence from 2013 – 2026, which would allow them to eliminate their income tax payable on the sale of the condo. While this may result in higher overall tax, the income tax on the sale of the house will not be payable until some point in the future when it is ultimately sold (potentially 25+ years later). In essence, Ronald and Lauren may be willing to accept higher overall tax payable in order to defer ~\$174,000 of current tax otherwise payable.

## ▶Takeaway: Understand Your Situation

The PRE is one of the most powerful tax savings opportunities available to Canadians.

If you own multiple properties, it's important to ensure that you understand how the PRE can be used most efficiently to reduce your income taxes. If you are considering selling a property, have a discussion with your accountant or tax advisor to ensure that you understand whether and how much PRE you can claim, and what your after-tax cash from the sale will be.

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