Home Equity Tax Calculator Backgrounder

When Canadians sell their primary residence, the home they live in, the proceeds are tax exempt.

However, some politicians and special interest groups are pushing for home equity taxes that would apply to primary residences.

The Canadian Taxpayers Federation examined three different proposals for a home equity tax and created a calculator that Canadian taxpayers can use to estimate how much a home equity tax could cost them.

The Home Equity Tax Calculator is available at this LINK:

https://bit.ly/3BYy0CP

NOTE: The numbers generated are estimates based on current proposals and may vary depending on individual circumstances.

PROPOSAL ONE

American-style home equity taxes

Americans pay a capital gains tax on the profits from the sale of their homes. However, Americans deduct the mortgage interest from their annual income taxes. This measure is not in place in Canada (therefore these deductions are not factored into the home equity tax calculator). Also, the first $250,000 (USD) is tax free for individuals and the first $500,000 (USD) is tax free for married couples. Household income is an additional factor. Single people making more than $441,450 (USD) per year and married couples earning more than $496,600 (USD) per year pay a 20 per cent capital gains tax on the eligible profit of their home. Single people making less than $40,000 (USD) and married couples earning less than $80,000 (USD) are exempt from capital gains.
For those between those thresholds, the rate is 15 per cent.

EXAMPLE:
A retired couple each have an income of $62,000 (CAD) per year. They purchased a home in Toronto for $250,000 in the 1980s and sold it for $1.2 million. They would have a capital gain of about $950,000. Under the American approach, after exemptions, they would have to pay **$51,750 in tax**.

PROPOSAL TWO

Generation Squeeze recommendation

Generation Squeeze is a housing research group at the University of British Columbia that advocates for a home equity tax. Generation Squeeze recommends a capital gains tax with an exemption similar to the United States.

EXAMPLE:
A retired couple each have an income of $62,000 per year. They purchased a home in Toronto for $250,000 in the 1980s and sold it for $1.2 million. The capital gain would be about $950,000. Assume a $605,000 exemption amount (similar to $500,000 US exemption for married couple). For the remaining $345,000, 50 per cent of the gain is reported on each spouse's tax return at the corresponding income tax bracket. As a result, each spouse would owe an additional $75,302 of tax in the year they sell the house for a total family **tax bill of about $150,604**. (This does not take into account the possibility of mortgage interest deductibility as that policy is not currently in place in Canada).

PROPOSAL THREE

Apply capital gains taxes to primary residences

The simplest way to impose a primary home equity tax would be to remove the primary residence exemption and subject all home sales to the current regime of capital gains taxes. Under this scenario, this is what a homeowner could expect. The capital gain would be calculated by subtracting the amount paid for the property from the final sale price. Then 50 per cent of the capital gain would be tax-free and the other 50 per cent is added to the homeowners' taxable income in the year of the sale at the corresponding income tax bracket.

EXAMPLE:
A retired couple each have an income of $62,000 each per year. They purchased a home in Toronto for $250,000 in the 1980s and sold it for $1.2 million. The capital gain would be $950,000 and 50 per cent of the gain would be tax free. The remaining 50 per cent, $475,000, would be counted as taxable income. Therefore, the tax owing after the sale of the house would be about $190,000.

Canadian Taxpayers Federation