

Tax Tip

Week of June 13, 2011

Additions to the Cost of a Residence

Individuals with a second residence, such as a cottage or chalet, often use the principal residence exemption to shelter the gain on their city property. Records should be maintained of all improvements and additions to both the cottage and the city residence, as they will increase the adjusted cost base of the property. This will reduce the eventual capital gain on the sale of the property not protected by the principal residence exemption. It is important to maintain a list of improvements and additions (including receipts) for the city property in case the decision is made to apply the principal residence exemption to the cottage and declare a taxable capital gain on the house in the city.