



Navigating Canadian Tax Obligations for Non-Residents and International Property Owners in 2026

A practical guide to residency, filings, property transactions, and treaty relief

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Professional Corporation

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INTRODUCTION

If you live outside Canada but earn income from Canadian sources—or you own Canadian property—you have tax obligations that can be easy to overlook and costly to ignore.

This Guide explains how Canadian rules work in 2026 for non-residents and international property owners, including residency status, withholding taxes, property sales, filings, and tax treaty relief. You'll find practical examples, step-by-step guidance, and planning strategies to help you stay compliant and reduce unnecessary tax. title

Penalties for non-compliance can include interest, gross negligence penalties, and delays in property transfers if you sell without proper clearance. The good news: with a clear plan and timely filings, you can meet your obligations and often reduce withholding or reclaim overpaid tax.

Who this guide is for:

- Individuals who are non-residents of Canada with Canadian-source income
- International property owners, including former Canadian residents who emigrated
- U.S. persons with Canadian investments or real estate

How to use this guide:

- Start with residency (Chapter 1) to confirm your status
- Identify which taxes apply (Chapter 2)
- Follow the correct process for property sales (Chapter 3)
- File the right returns (Chapter 4) and apply treaty relief (Chapter 5)
- Understand special property rules (Chapter 6)
- Apply planning strategies (Chapter 7)
- Learn from common pitfalls (Chapter 8)
- If you're a U.S. taxpayer, pay special attention to Chapter 9



Chapter **O**ne

Understanding Residency Status in Canada

Definitions: Non-resident, Factual Resident, Deemed Resident

- **Factual resident:** You are considered resident if your significant ties are primarily to Canada (home, spouse/common-law partner, dependents), even if you travel or stay abroad.
- **Deemed resident:** You may be deemed resident if you stay in Canada for 183 days or more in a calendar year and are not a resident of another country with treaty relief, among other specific categories.
- **Non-resident:** You are a non-resident if you normally, customarily, or routinely live in another country and have severed primary residential ties with Canada.

Residential Ties: Primary and Secondary

- **Primary ties (most influential):** Dwelling in Canada, spouse/common-law partner in Canada, dependents in Canada.
- **Secondary ties (supporting factors):** Personal property in Canada (car, furnishings), Canadian driver's license, bank accounts/credit cards, memberships, provincial health coverage, Canadian mailing address.

Tip: No single secondary tie decides residency; CRA weighs the full picture.

The 183-Day Rule and Treaty Tiebreakers

- **183-day rule:** Presence in Canada for 183 days in a calendar year can trigger deemed residency if you are not otherwise a resident of another country with treaty protection.
- **Treaty tiebreakers:** If you have ties to two countries, tax treaties apply tests in order—permanent home, center of vital interests, habitual abode, nationality, and mutual agreement—to assign residency to one country for treaty purposes. The U.S.-Canada treaty follows this framework.

Residency Changes and Dual Residency

- **Emigration:** When you leave Canada and sever ties, you may become a non-resident from an emigration date. Deemed disposition rules may apply to certain property at departure.
- **Immigration:** When you move to Canada and establish ties, you become a resident from an immigration date; you are taxed on worldwide income after that date.
- **Dual residency:** You can be resident under domestic law in two countries; a treaty usually resolves the tie, but you may still have filing requirements in both places.

Example: You work in the U.S. on a multi-year visa, sell your Canadian home, move your family, and give up provincial health coverage. You are likely a non-resident from your move date, even if you keep a Canadian bank account.





Chapter **T**wo

Tax Obligations for Non-Residents

Canadian-Source Income Overview

Common Canadian-source income includes:

- Dividends, and certain investment income
- Rental income from Canadian property
- Pensions, RRSP/RRIF withdrawals, annuities
- Employment income earned in Canada
- Business income carried on in Canada
- Gains from taxable Canadian property (e.g., Canadian real estate)

Part XIII Withholding Tax

- Non-resident withholding (Part XIII) generally applies to passive income like dividends, rental income (gross basis unless electing), pensions, and certain royalties.
- Payers withhold at source, typically 25%, unless a tax treaty reduces the rate.
- You usually do not file a return for pure Part XIII income unless you elect to file (e.g., Section 216 for rentals, Section 217 for pensions) to compute tax on a net basis.

Treaty Reductions

- Example rates (subject to treaty): U.S. residents may have Canadian withholding on dividends reduced to 15% (5% for substantial corporate holdings), pensions often to 15%, and certain interest may be 0%.

Part I Income and Filing Requirements

- Employment income earned in Canada, business income carried on in Canada, and gains from taxable Canadian property generally fall under Part I tax. A return is required.
- Real estate sales trigger special withholding rules (Section 116) and a Part I return to finalize tax.

Elections for Rental and Pension Income

- Section 216 (rental income): Allows non-residents to file to be taxed on net rental income (gross rents minus expenses) instead of the default 25% withholding on gross. Form NR6 can reduce ongoing withholding to 25% of estimated net income if approved.
- Section 217 (pension/retirement income): Allows taxation on a graduated rate basis as if resident, which can yield refunds when personal credits apply.

Example: On \$30,000 annual rent with \$18,000 expenses, the default withholding is \$7,500 (25% of gross). Under a Section 216 election, tax on \$12,000 net may be far lower, often resulting in a refund.





Chapter **T**hree

Selling Canadian Real Estate as a Non-Resident

Section 116 Certificate of Compliance

- When a non-resident disposes of taxable Canadian property, the buyer must withhold a percentage of the purchase price unless the seller provides a Certificate of Compliance.
- Process: File Form T2062/T2062A with supporting documents (purchase and sale agreements, proof of cost, capital improvements, selling costs). CRA issues a certificate that sets the required withholding based on estimated gain, not gross proceeds.

Default vs. Optional Withholding

- Default: Without a certificate, buyers typically withhold 25% of gross proceeds for non-depreciable property (e.g., land and buildings) and higher rates for certain depreciable property or inventory. This often far exceeds actual tax.
- Optional (reduced) withholding: With a timely Section 116 certificate, withholding is calculated on estimated gain (proceeds minus adjusted cost base and selling costs) rather than gross proceeds.

Reducing Withholding with Documentation

Provide:

- Original purchase documents and proof of payment
- Records of capital improvements (e.g., renovations, additions)
- Selling costs (commissions, legal fees, transfer taxes)
- Evidence of principal residence status for periods you were resident, if applicable

Tip: Submit early—ideally soon after signing the sale agreement—to receive the certificate before closing.

Post-Sale Returns and Refunds

- You must file a Canadian income tax return for the year of sale to calculate final tax on the actual gain and claim a refund if too much was withheld.
- If a portion qualified as principal residence while you were resident, report the designation to exempt eligible years.

Example: You sell for \$900,000, with a \$700,000 cost base and \$30,000 selling costs. Estimated gain = \$170,000. With a certificate, withholding may be 25% of \$170,000 (\$42,500) instead of 25% of \$900,000 (\$225,000), improving cash flow at closing.





Chapter
Four

Filing Your Canadian Tax Return as a Non-Resident

When You Must File

- You had Canadian employment or business income
- You disposed of taxable Canadian property (e.g., real estate)
- You elect under Sections 216 or 217
- You are claiming a refund of over-withheld Part XIII tax

When You May Not Need to File

- You received only Part XIII income fully withheld at source and you do not elect to file

Packages, Forms, and Processes

- Use the non-resident (or emigrant) tax package for the relevant year.
- Forms you may encounter:
 - NR4: Statement of Amounts Paid to Non-Residents (shows Part XIII withholding)
 - NR6: Request to reduce withholding on rental income
 - Section 216 return: For rental income on a net basis
 - Section 217 return: For pension/retirement income on a graduated basis
 - T2062/T2062A: Section 116 certificates for property sales
 - T4A-NR/T4: Statements for services or employment in Canada
 - T2203: If you have income allocated to multiple provinces/territories

Filing Methods

- EFILE/NETFILE availability can vary for non-resident returns; many non-resident and Section 216/217 returns are paper-filed or filed by authorized preparers. Confirm current-year options.

Deadlines:

- Individuals with no business income: April 30 of the year following the tax year
- With business income: June 15, but any balance is due April 30
- Section 216 rental return: June 30 of the following year (interest may apply if insufficient withholding)
- Section 116 filings: Timelines tied to disposition date; apply promptly to avoid higher withholding and penalties

Emigrants and Final Returns

- If you became a non-resident during the year, file a final resident return up to your departure date and a non-resident return, as applicable, after that date. Departure tax may apply to certain investments (deemed disposition, with possible elections to defer).

Checklist: Non-Resident Filing Prep

- Collect NR4s, T-slips, and rent ledgers
- Gather expense receipts (repairs, maintenance, property management, mortgage interest, property taxes, insurance, utilities where applicable)
- Keep records of days in Canada and residential ties
- For sales: purchase and sale agreements, improvement receipts, closing statements



Chapter
Five

Tax Treaties and International Tax Relief

Treaty Network Overview

- Canada has a wide treaty network designed to avoid double taxation and prevent tax evasion. Treaties allocate taxing rights and often reduce withholding rates.

Key Treaty Provisions for Non-Residents

- Residency tiebreakers: Decide which country you are deemed resident of for treaty purposes.
- Permanent establishment/business profits: Business income is typically taxed in Canada only if carried on through a permanent establishment in Canada.
- Dividends, interest, and royalties: Reduced withholding rates for treaty residents.
- Pensions and annuities: Often capped withholding rates; special rules for social security-type benefits.

Foreign Tax Credits (FTCs)

- If you pay tax in Canada on income also taxed in your home country, you may claim an FTC in your home country (or vice versa) to avoid double taxation, subject to local rules and limits.

Applying Treaty Benefits

- Provide residency certifications (e.g., NR301 series) to Canadian payers for reduced withholding.
- For disputes on residency or double taxation, consider the Mutual Agreement Procedure (MAP) available under treaties.

Example: A U.S. resident receiving Canadian dividends can have withholding reduced under the Canada–U.S. treaty by filing the appropriate certification with the payer before payment.



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Chapter

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Non-Taxable Specifics and Property Ownership Rules

Non-Taxable Income Examples

- Certain bank interest paid to arm's-length non-residents may be exempt from Canadian withholding; however, interest from some sources can still be taxable—confirm classification with the payer.
- Capital gains on certain Canadian securities may be exempt for non-residents unless the property is “taxable Canadian property” (e.g., Canadian real estate or shares deriving value principally from Canadian real estate).

Property Transfer Taxes and Provincial Rules

- Land transfer tax: Payable on property purchases; each province has its own regime, with additional municipal levies in some cities (e.g., Toronto).
- Provincial/municipal vacancy or speculation taxes: For example, British Columbia's Speculation and Vacancy Tax and additional property transfer tax for foreign buyers (subject to exemptions and changes).

Special Rental Rules and Net Election

- Non-residents earning rent must have 25% withholding on gross rent unless filing NR6 and a Section 216 return to be taxed on net income.
- Eligible expenses include mortgage interest, property taxes, insurance, repairs (not capital improvements), management fees, utilities paid by the owner, and condo fees.

2023 Anti-Flipping Tax

- Residential properties held for less than 12 months before disposition may be subject to business income treatment (no principal residence exemption), unless an exemption applies (e.g., death, separation, job relocation). This rule affects residents and non-residents; track holding periods carefully.

Example: A non-resident sells a condo 9 months after purchase due to a speculative flip. The gain may be taxed fully as business income, not a capital gain, and principal residence treatment would not apply.





Chapter **S**even

Strategic Tax Planning for Non-Residents

Record-Keeping and Documentation

- Maintain digital folders for each property: purchase docs, capital improvements, annual rent ledgers, expense receipts, and insurance claims.
- Keep bank statements highlighting rent deposits and expense payments; reconcile monthly.

Retirement Withdrawals Planning

- RRSP/RRIF withdrawals to non-residents are typically subject to Part XIII withholding (often 25%, treaty-reduced in some cases).
- Consider timing withdrawals to align with lower home-country tax years or to optimize foreign tax credits. Section 217 election may reduce tax where personal credits apply.

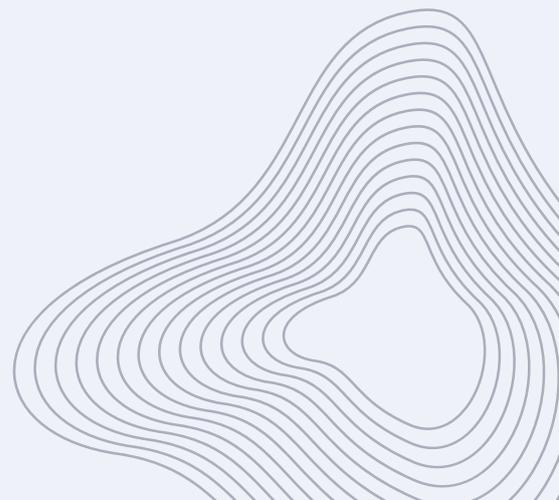
Exemptions and Deductions

- Principal residence exemption: Available only for years you were Canadian resident and designated the property as your principal residence. Maintain occupancy evidence (utility bills, license/ID address).
- Deductible expenses for rentals: Claim only reasonable, supported costs. Capital improvements increase adjusted cost base; repairs are expensed.
- Moving from gross to net: File NR6 early each year to reduce rental withholding to estimated net.

Working with Professionals

- Engage a cross-border tax professional for Section 116 sales, treaty analysis, and coordinating foreign tax credits.

Actionable Tip: Create a compliance calendar with reminders for NR6 (early year), rental returns (by June 30), and personal returns (by April 30/June 15 depending on income type).





Chapter
Eighth

Common Pitfalls and How to Avoid Them

Pitfall 1: Misunderstanding Residency

- Risk: Paying too much or too little tax, or double filing.
- Avoid: Assess primary ties; document departure or arrival dates; use treaty tiebreakers and obtain residency certificates.

Pitfall 2: Misreporting or Not Reporting Income

- Risk: Penalties and interest; denial of treaty benefits.
- Avoid: Ensure payers have your NR status and treaty forms; reconcile NR4 slips with your records; file elections where beneficial.

Pitfall 3: Ignoring Property Transaction Obligations

- Risk: Buyer withholds on gross proceeds; closing delays.
- Avoid: File Section 116 application promptly; assemble cost base evidence early; coordinate with the buyer's lawyer.

Pitfall 4: Missing Provincial Filings

- Risk: Significant penalties even if no tax is due.
- Avoid: Track exemptions (e.g., availability for certain owners).

Using Voluntary Disclosures

- If you missed filings or underreported income, consider the CRA Voluntary Disclosures Program to reduce penalties and avoid prosecution. Prepare a complete, voluntary, and timely disclosure with professional guidance.



Chapter **N**ine

Navigating Cross-Border Taxation (U.S.-Canada Focus)

Dual Taxation and Coordination

- U.S. citizens and residents must report worldwide income to the IRS even when living abroad; Canadian-source income may be creditable in the U.S.
- Coordinate timing of income and deductions to optimize foreign tax credits in both countries and avoid limitation issues.

Key U.S. Considerations for Canadian Income

- Canadian rental income: Report on U.S. Schedule E; claim Canadian taxes as foreign tax credits on Form 1116.
- RRSP/RRIF: Income distributions are taxable in the U.S.; treaty relief may reduce Canadian withholding. Growth inside RRSP/RRIF is generally tax-deferred for U.S. purposes when properly disclosed.
- Capital gains from Canadian real estate: Taxable in both countries; claim foreign tax credits. Watch for exchange rates on basis and proceeds.

Cross-Border Real Estate Scenarios

- U.S. resident sells Canadian cottage: Obtain Section 116 certificate, pay Canadian tax on gain, then claim U.S. foreign tax credit. Consider principal residence eligibility for Canadian years of residency only.
- U.S. resident with Canadian rental: File NR6 and Section 216 return to pay tax on net income; report on U.S. return; track depreciation differences between countries.

Practical Checklists

- Before purchase: Confirm foreign buyer taxes, financing options as a non-resident, and expected rental yield after tax.
- During ownership: Calendar for NR6, annual rental filings; maintain ledgers and receipts.
- Before sale: Start Section 116 process early; update cost base with all capital improvements; confirm anti-flip exposure.

Conclusion: Key Takeaways and Next Steps

- Confirm your residency status first; it drives everything else.
- Map your income types to the correct tax regimes: Part XIII for passive income with potential elections, Part I for employment, business, and property sales.
- For rentals, use the Section 216 regime and NR6 to avoid over-withholding and to deduct expenses.
- Selling real estate as a non-resident requires a Section 116 certificate to avoid excessive withholding and closing delays.
- Treaties can cut withholding and reduce double taxation—use residency certifications and foreign tax credits.
- Don't overlook special rules: Provincial property taxes, and the anti-flipping tax.
- Good records are your best defense and your path to refunds.
- Cross-border taxpayers, especially U.S. persons, should coordinate both sides of the border to avoid double tax and optimize credits.

Next steps:

- Build your compliance calendar (NR6, Section 216/217, personal returns, Section 116).
- Gather and digitize all property and income records.
- Confirm treaty residency and provide NR forms to payers.
- Consult a cross-border tax professional for complex situations and upcoming transactions.

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Disclaimer: The views expressed in this article are those of the author and should not be relied on to make decisions.

Consider discussing your specific circumstances with an appropriate specialist.