

### Condo Smarts

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**Dear Condo Smarts:** Our strata has always been under the impression that strata corporations were tax exempt. As a result, we are not required to file tax returns and we don't pay taxes or collect HST on strata fees. We have just received a notice that we are being audited by the CRA, and we're not sure why or what we have to do. We are a residential high-rise building in Burnaby with no commercial strata lots, and have just completed a major building repair. Vicky M.

**Dear Vicky:** Strata corporations for the most part are classed as non-taxable corporations under tax laws, but not all strata corporations are tax exempt. There are several types of strata corporations such as industrial, commercial, retail, food services, and hotel services that are not necessarily tax exempt. They are usually non-residential, but there are even exceptions to that rule where a residential strata corporation is operating a commercial enterprise as part of the strata functions. If a condominium corporation carries on a business, any profits from that business must be included in its income and it will not be considered a non-profit corporation. The following quote from the (Canada Reveue Agency) CRA FORM IT-304R2 is very clear. "Paragraph 150(1)(a) of the Income Tax Act, requires all corporations, including condominium

corporations, to file an income tax return each year, even if they are exempt from paying tax under Part I. A residential condominium corporation that qualifies as a non-profit organization under paragraph 149(1)(f) is exempt from Part I tax on its taxable income but is required to file Form T1044, *Non-Profit Organization (NPO) Information Return*, with its T2 tax return. Although it is a question of fact whether a particular condominium corporation qualifies for an exemption under paragraph 149(1)(f), most residential condominium corporations qualify as non-profit organizations within the meaning of this paragraph."

Strata corporations are permitted to invest their reserve funds, and the interest earned on those funds for residential strata corporations is non taxable; however, there are many strata corporations that have variations on income that transcend the intent of activities that are intended to generate profit. This may result in lower strata fees which could be interpreted as profit. Because strata corporations are permitted to charge user fees, some strata corporations have been innovative with their options. For example, a user fee for additional parking in a building of \$25 per month is unlikely to gain much attention, but a strata corporation who rents parking to the public as an enterprise for \$300 a month can

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generate a significant amount of revenue annually. Both revenues must be reported in your annually income statement, and user fees are not necessarily tax exempt. Strata corporations are also permitted leases or licenses over common areas. Again this can generate substantial revenues. A series of roof top communication towers can easily generate \$100,000 a year or more. If your strata has a long planned and funded reserve fund study, or has conducted a major special levy, you are likely generating a significant amount of interest from the investments. That interest will generate a tax statement, and your strata corporation has to ensure it has filed an annual tax return with a year end financial statement. Remember, strata corporations must file tax returns, not all strata corporations are tax exempt, and like any entity who must file tax returns, you must also maintain your financial records for a period of seven years from the end of the current fiscal year. Contact your account or the CRA directly if you have any questions.

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