

Selling the family home after 60: the exemption, the cottage, and what the GIS and OAS see

A gain on the sale of a home that was the family's principal residence for every year it was owned is usually exempt from tax, but the sale still has to be reported on Schedule 3 and Form T2091. A family can designate only one home for each year, so a cottage or a former rental can leave part of a gain taxable. A taxable gain counts as income for the GIS and the OAS recovery tax, while an exempt gain does not.

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An exempt sale still has to be reported

Selling a house that was always the family home usually produces no tax, but it still produces paperwork. The Canada Revenue Agency (CRA) says that a gain on a property that was solely the principal residence for every year it was owned is generally exempt.¹ The seller must still report the sale on Schedule 3, Capital Gains (or Losses), and complete Form T2091(IND).¹

The CRA allows the exemption only if the sale and the designation are reported on the return.¹ Schedule 3 asks for the year the home was bought, the selling price, and a description of the property.² A designation made late can be accepted in some cases. The penalty is \$100 for each complete month after the original due date, up to a maximum of \$8,000.²

A family can designate only one home for each year

A principal residence is not limited to a house in the city. The CRA's list includes a cottage, a condominium, an apartment, a mobile home, and a houseboat.¹ The owner, a spouse or common-law partner, a former spouse, or a child must have lived in it at some time during the year.¹

The CRA's guidance on principal residences says that living in a home for a short time in the year is enough.³

For 1982 and later years, a family can designate only one home as its principal residence for each year.¹ For 1993 and later, the family means the owner, a spouse or common-law partner who is not separated, and dependent children.¹ A couple who owned a house and a cottage at the same time has to choose which property covers each of those years.

The choice is made when a property is sold, on Form T2091(IND). The exempt part of a gain is worked out with a formula. It divides one plus the number of years designated by the number of years the property was owned.³ The extra year allows for a family that buys a new home and sells the old one in the same year. In that year, both properties are treated as a principal residence.³ A year used for the house cannot be used again later for the cottage.

A home that was rented out can lose part of the exemption

When a principal residence becomes a rental, the CRA treats the owner as having sold it at its fair market value, even though nothing was sold.¹ A capital gain can arise at that point. The owner can instead file an election under subsection 45(2) of the Income Tax Act.¹ With that election, the property can still be designated as a principal residence for up to four years while it is rented. The owner must stay a resident of Canada and designate no other property for those years.¹

The rule also works in the other direction. A rental that the owner later moves into can be covered by an election under subsection 45(3), made with a signed letter attached to the return.¹ The part of a gain that belongs to years no designation covers can be taxable.

A taxable gain counts as income for the GIS and the OAS recovery tax

For 2025, the CRA says that generally one-half of a capital gain is added to income.⁴ That half is called the taxable capital gain, and it is

reported on line 12700 of the return.⁴

The Guaranteed Income Supplement (GIS) is a monthly payment for people 65 and older who receive Old Age Security (OAS) and have a low income. The Old Age Security Act defines income for the GIS as income computed under the Income Tax Act, with a list of exceptions.⁵ Capital gains are not on that list. Service Canada's GIS income statement asks for capital gains from line 12700.⁶ An exempt gain on a principal residence is not reported as a taxable capital gain, so it does not reach line 12700.

The OAS recovery tax, often called the clawback, is based on net world income. For 2026 income, it applies above \$95,323, and 15% of the income over that line is repaid out of OAS from July 2027 to June 2028.⁷ In this illustration, a person with \$40,000 of other income sells a cottage in 2026 with a \$200,000 gain that is not covered by the exemption. At the one-half rate, the gain adds \$100,000 to income, for a total of \$140,000. The recovery tax would be \$6,701.55.

The same gain affects the GIS. The GIS is based on income from the previous year.⁸ For October to December 2026, the GIS income limit for a single person is income under \$23,112.⁸ A taxable gain of \$100,000 is far above that limit. The gain counts in the income of one year only, so it affects the GIS that is based on that year.

Where the proceeds are kept changes what is taxed later

The money from an exempt sale is not income, but what it earns afterward can be. A tax-free savings account (TFSA) is treated differently. The TFSA dollar limit for 2026 is \$7,000, and unused room from earlier years carries forward.⁹ An amount withdrawn is added back to the room on January 1 of the following year.⁹ The Retirement Library article on TFSAs after 60 explains how TFSA withdrawals are treated for the GIS and the recovery tax.

OAS Guides does not say which home to designate for which years, or where proceeds should go. Those choices belong to the seller and their own tax adviser or financial adviser. The dates follow the calendar year. A sale in 2026 is reported on the 2026 return, and any recovery tax it causes is repaid until June 2028.⁷

Notes

1. Canada Revenue Agency, “Principal residence”, page modified 2026-02-05. <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/creating-a-tax-return/personal-income/line-12700-capital-gains/principal-residence-other-real-estate.html> (accessed 2026-10-06)
2. Canada Revenue Agency, “Reporting the sale of your principal residence for individuals (other than trusts)”, page modified 2021-06-26. <https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/federal-government-budgets/budget-2016-growing-middle-class/reporting-sale-your-principal-residence-individuals.html> (accessed 2026-10-06)
3. See paragraphs 2.11 (ordinarily inhabited) and 2.28 (the one-plus rule). Canada Revenue Agency, “Income Tax Folio S1-F3-C2, Principal Residence”, page modified 2024-01-30. <https://www.canada.ca/en/revenue-agency/services/tax/technical-information/income-tax/income-tax-folios-index/series-1-individuals/folio-3-family-unit-issues/income-tax-folio-s1-f3-c2-principal-residence.html> (accessed 2026-10-06)
4. Canada Revenue Agency, “Definitions for capital gains”, page modified 2026-02-05. <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/creating-a-tax-return/personal-income/line-12700-capital-gains/definitions-capital-gains.html> (accessed 2026-10-06)
5. Section 2, definition of income. Justice Laws Website (Government of Canada), “Old Age Security Act (R.S.C., 1985, c. O-9)”, current to 2025-01-22. <https://laws-lois.justice.gc.ca/eng/acts/O-9/page-1.html> (accessed 2026-10-06)
6. Service Canada, “Statement of Income for the Guaranteed Income Supplement, the Allowance or Allowance for the Survivor (ISP-3026)”, form dated 2026-01-29. <https://catalogue.servicecanada.gc.ca/apps/EForms/pdf/en/ISP-3026.pdf> (accessed 2026-10-06)
7. The example is an illustration using the 2026 threshold: (\$140,000 minus \$95,323) times 15%. It ignores every other factor in a real return. Government of Canada (Service Canada), “Old Age Security pension recovery tax”, page modified 2026-09-29. <https://www.canada.ca/en/services/benefits/publicpensions/old-age-security/recovery-tax.html> (accessed 2026-10-06)
8. Income limit for October to December 2026; it changes every quarter. Government of Canada (Service Canada), “Guaranteed Income Supplement: How much you could receive”, page modified 2026-09-29. <https://www.canada.ca/en/services/benefits/publicpensions/old-age-security/guaranteed-income-supplement/benefit-amount.html> (accessed 2026-10-06)

2026-10-06)

9. Canada Revenue Agency, "Calculate your TFSA contribution room", page modified 2026-02-20. <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/tax-free-savings-account/contributing/calculate-room.html> (accessed 2026-10-06)

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