

News Release

Peterborough flood relief funds not taxable for most but could have income tax implications for business

Peterborough, Ontario, March 3, 2005... The Canada Revenue Agency (CRA) confirms that for most area residents, flood relief payments do not affect the filing of their 2004 income tax returns.

Generally, when a natural disaster strikes, payments that individuals receive from a government for personal losses and expenses incurred as a result of the disaster—including payments for temporary housing and meals during the disaster—are not included in income for tax purposes.

As well, government compensation received for loss or damage to personal-use property does not ordinarily result in any tax consequences.

Government assistance includes all amounts received directly from the federal or provincial government, the municipality, a public authority, or a crown corporation.

However, government assistance received for capital property (whether business-related or personal) is ordinarily netted against the cost of repairs made to that property or, if it relates to the replacement of that property, it normally reduces the cost or capital cost of the acquired property.

There **are** tax implications when government assistance is received for operating a business or for property held for the purposes of earning income. Funds received for damaged inventory that exceed the costs incurred related to that damage must be included in income. Also, where the assistance is compensation for loss of profits, it is considered to be income from carrying on a business or income from property.

For more details, see Interpretation Bulletin IT-273R2, *Government Assistance – General Comments* on the CRA's Web site at www.cra.gc.ca.

For media information:

Sue Primeau
Communications Manager
(613) 391-2654

