

## Financial assistance payments from your government

### Income Tax

#### Is government assistance paid to an individual taxable?

Generally, a disaster relief payment that an individual receives from a government, municipality, or public authority for personal losses and expenses is not taxable and is not included in the recipient's income for income tax purposes. This includes payments for temporary housing, clothing, and meals. As well, government compensation for loss of or damage to a personal residence does not ordinarily result in any income tax consequences.

#### Is government assistance paid to a business taxable?

Generally, government assistance that a business receives to help offset the cost of expenditures incurred as a result of a disaster can either directly reduce the amount of business expenses incurred or be included in income and the business expenses deducted when incurred in the normal manner. In either case, the business will effectively have no net income related to the assistance.

Government assistance received to help replace destroyed or damaged property will generally reduce the capital cost of that property. To the extent that the government assistance is considered to be compensation for property that has been lost or destroyed, the amount of the assistance is treated similarly to insurance proceeds so that the compensation is considered to be proceeds of disposition.

Generally, the *Income Tax Act* allows a business to elect to postpone recognizing a capital gain or a recaptured capital cost allowance, as the case may be, when a former property is disposed of involuntarily and a replacement property is acquired. A replacement property must be acquired within a specified time limit (generally within 24 months of the end of the tax year in which the proceeds were receivable). A property is considered to be a replacement property for a former property only if specific conditions are met. For more information on the replacement property rules, see [Interpretation Bulletin IT-259R4, Exchange of Property](#).

To ease the financial burden that might arise when a business elects to postpone recognizing a capital gain or a recaptured capital cost allowance, the CRA may accept security in lieu of payment of taxes owing until the final determination of taxes is made or the time period for acquiring the replacement property has expired. For more

information on posting security, see paragraph 3 of [Interpretation Bulletin IT-259R4, Exchange of Property](#).

If the business is unable to pay or secure the tax debt arising from such a scenario, it is CRA policy to work with the business to establish a payment arrangement based on the business's ability to pay.

The business should file its income tax return in the normal manner for the year that the proceeds are received and file its replacement property rules election within the specified time to amend the tax assessment for the year the proceeds were received and reduce the amount payable on the proceeds. In the meantime, to offer security or

discuss a payment arrangement, the business can call the CRA at 1-888-863-8657  
1-888-863-8657 FREE .

For general information on government assistance received by a business in the course of earning business income, see [Interpretation Bulletin IT-273R2, Government Assistance – General Comments](#).

## **GST/HST**

In general, the provision of financial assistance by a government (or other grantor) to an individual or a business to subsidize the individual or business for losses or expenses resulting from a disaster will not be considered a supply and, therefore, the GST/HST will not apply to it, as long as there is no direct link between the financial assistance and a supply by the individual or business to the grantor or a third party specified by the grantor. For more information, see [Technical Information Bulletin B-067, Goods and Services Tax Treatment of Grants and Subsidies](#).

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