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TAX MATTERS

# Renting to friends or family? Here's how to avoid hot water with the CRA

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My father owns a rental property in the Niagara region. This week, he visited one of the tenants who mentioned that the occupants living in the apartment above them were very noisy.

“Most nights they make a lot of noise stomping around until well after midnight,” the tenant said. “I’m sorry about that, it must really bother you,” my father said. “Not really,” replied the tenant. “I’m usually up that late anyway – practising my trumpet.”

If you own a rental property, you’re no doubt aware of the many issues that a landlord deals with day to day. But you should also be aware of how the Canada Revenue Agency (CRA) thinks about rental properties – particularly when you rent to a friend or relative. A recent court decision highlights some potential red flags to consider.

## The story

On June 25, 2025, the Tax Court of Canada rendered a decision in the case *Blecha v. The King* (2025 TCC 91).

Mr. Blecha owned a rental property in a small town in Ontario, and rented the home to his mother. And for three consecutive tax years (2015, 2016 and 2017), he reported rental losses of \$14,312, \$17,619 and \$10,693, respectively.

If you own a rental property personally, losses like this will save you tax when you apply those losses against other income you might earn. This was the case for Mr. Blecha. The CRA doesn’t like to see recurring losses (three years in a row is a red flag) from a business or rental property. It raises questions as to whether you’ll ever report a profit.

In this story, the CRA reassessed Mr. Blecha to disallow expenses related to the rental property to eliminate the losses he reported. The CRA’s argument was that the property was not a “source of income.” In order to claim expenses against income, an activity must be considered a source of income.

This is not to say that the activity (the rental property in Mr. Blecha’s case) must produce a profit every year. But

the historical court decision *Stewart v. R* (2002 TC 6969) established that if you aren't earning a profit, you had better be able to show a sufficient level of commerciality so that it's clear your activity is not a personal endeavour or hobby. In this case, your activity should be considered a source of income, and your losses should be allowed.

In Mr. Blecha's case, the CRA argued, in the alternative, that if his property did count as a source of income that his expenses should only be allowed if they were: (1) not personal in nature; (2) incurred for the purpose of gaining or producing income from the property; (3) not capital costs; and (4) reasonable in the circumstances. These are the tests that always apply to every expense you hope to deduct against any business or property income.

## **The result**

The court had to distinguish between commercial and personal activities in this case. Did Mr. Blecha intend to make a profit? Did he do so by embracing objective standards of commercial-like behaviour?

The court will look at the following factors to determine whether you're conducting commercial-like behaviour: (1) the profit and loss record in prior years; (2) your experience and training in the activity; (3) your actual conduct in pursuing the activity; and (4) the capability of the activity to show profit.

In Mr. Blecha's case, he charged his mother less than fair market rents. He argued that the property had damage and needed repairs, so the lower rent was justified. The court didn't buy it.

Also, the receipts he issued to his mother for rent paid had "deficiencies

and oddities" (yes, the small paperwork matters). In addition, his mother did not pay for personal utilities such as phone and cable television notwithstanding her low rent, there was no provision in the lease allowing Mr. Blecha to occupy one of the bedrooms for storage or weekend stays (even though he did), there was no rent increase notwithstanding considerable improvements to the property made while she lived there and when his mother passed away, Mr. Blecha didn't rent the property to anyone else.

In the end, the court ruled that "such an arrangement, while quite laudable and loving, is not a business venture undertaken in pursuit of profit. Instead, it was quite personal."

## **The moral**

What can we learn from Mr. Blecha's story? If you're going to rent a property to family or friends, or carry on any business activity, make sure you can demonstrate commercial-like behaviour. The little details like lease agreements, fair market rent, advertising your activity or property, are important. This way, any losses incurred should be allowed.

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