



# TAX TIPS FOR REAL ESTATE INVESTORS

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# AGENDA



- **Common mistakes made at tax time**
- **What you can and can't write off**
- **Should you incorporate or use your personal name**
- **Should you take CCA (Capital Cost Allowance) or pay now**
- **Housing Rates**
- **Key updates from the Feb 27th Federal Budget**

# COMMON MISTAKES

## Inflated expenses – Be realistic with your deductions

- *Automotive expense, telephone, home office*
- *Double dipping*
- *Personal vs business*

## Timing – Know your reporting and payment deadlines:

- *Filing deadline for self-employed tax-payers is June 15<sup>th</sup>*
- *Payment deadline for all taxpayers is April 30<sup>th</sup>.*
- *File on time!*

# COMMON MISTAKES

## Record Keeping – Save your receipts:

- *Increasing amounts of CRA audits / requests for information*
- *Pertains to both annual income as well as capital gains*
- *6 years for filed documents ; indefinite for some documents (ie. reno costs)*
- *Your credit card is not sufficient audit evidence*
- *There are rules as to what your receipts need to include on them*

## HST - When is it applicable?

- *Commercial rentals; > \$30K in revenue*

# COMMON MISTAKES



## Not budgeting for taxes:

- *Know your marginal tax rate for your tax bracket*
- *Tax planning should be done all year, not just during March and April*
- *Tax is paid on income not cash flow*
- *Have your accountant prepare a tax projection for you*

## Listening to others – Don't do it!:

- *Do your own research on the CRA website: [www.canada.ca/en/services/taxes](http://www.canada.ca/en/services/taxes)*
  - *T4036 – Rental Income; T4037 – Capital Gains*
- *Ask a professional*

# DEDUCTIBLE EXPENSES

- *Advertising – cost to advertise your rental*
- *Insurance – Premiums deductible annually*
- *Interest – Interest only, principle is not deductible*
- *Legal & accounting - capital cost vs operating costs*
- *Maintenance and repairs – Your own labour is not deductible, care on claiming large improvements*
- *Management and admin – property managers*

# DEDUCTIBLE EXPENSES



- *Office expenses – stationary and supplies*
- *Travel – cost of travelling to ad from property (restrictions apply – see auto)*
- *Property taxes*
- *Salaries and wages – superintendent, maintenance personnel*
- *Utilities – gas, hydro, water, waste*
- *Other expenses – Landscaping, lease cancellation fees, condo fees*

# DEDUCTIBLE EXPENSES

## *Motor Vehicle Expenses*

**When you own one property** – deductible only if all criteria are met:

- ***You receive rental income***
- ***You personally do all or part of the repairs and maintenance***
- ***You have a motor vehicle to transport tools and materials***
- ***\*Collecting rent is a personal expense***

**When you own multiple properties** – deductible only if all criteria are met:

- ***Car is used to collect rents;***
- ***supervise repairs; and***
- ***generally manage the properties***



## When does it make sense? - Qualitative vs Quantitative

### Qualitative Factors:

- *Safe guarding assets; creditor proofing = PRO*
- *Borrowing ability = CON*
- *Administration and compliance = CON*

## When does it make sense? - Qualitative vs Quantitative

### Quantitative Factors:

- *Tax rates, flat rate vs variable rate of tax = PRO and CON*
  - *(More than 5 employee rule)*
- *Legal costs = Minor CON*
- *Accounting costs = Corporate filings tend to cost more*

# Capital Cost Allowance (CCA)

## What is CCA?

- *Class 1: 4% reduction of the purchase price*
- *Land does not depreciate; proration needed upon purchase*

## When does it make sense to claim CCA?

- *Perpetual rental*
- *Long term hold*
- *Continuous reinvestment*

## Limits of claiming CCA

- *No rental losses*

# Capital Cost Allowance (CCA)



- **Change in use rules**
  - **Personal Use to Income producing**
    - *File election to defer deemed sale up to for year*
    - *No CCA allowed*
  - **Income Producing to Personal Use**
    - *File election to defer tax on sale*
    - *1+ rule*
- **How CCA will affect you and your principle residence claim**

# HOUSING REBATES (GST/HST)



- **When are you eligible?**
  - *Purchase of a new home for rent or principle use*
  - *Substantial renovation / addition (>90%)*
- **How to claim a rebate?**
  - *Timing of claim – 2 years from “base date”*
  - *Documentation required*
  - *Who is responsible for filing the claim?*
  - *Don't lie to the seller!*

# FEDERAL BUDGET UPDATE

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# CONTACT INFO

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