

TAX TIPS FOR REAL ESTATE INVESTORS

Prepared by:
Daniel DiManno, CPA, CA
Capstone LLP
Chartered Professional Accountants
(416) 551-0760
daniel@capstonellp.ca
www.capstonellp.ca

- **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**
- **Flipping properties – What you need to know**
- **Buying a newly built home**

Inflated expenses – Be realistic with your deductions:

- *Automotive expense, telephone, home office*
- *Double dipping (work or self-employed expenses vs rental related expenses)*
- *Personal vs business*

Timing – Know your reporting and payment deadlines:

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

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 alone 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*

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*
 - *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. Careful when claiming large improvements, they might be capital in nature.*
- *Management and admin – property managers*

DEDUCTIBLE EXPENSES

- *Office expenses – stationery and supplies*
- *Travel – cost of travelling to and 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*

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*
- **Travel to collect rent is a business expense*

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 4 years*
 - *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

Business income vs. Investment income

- *Potential loss of capital gain treatment*
- *Each property built/renovated and sold likely to be considered inventory*
- *Taxes applied to 100% of the gain*
- *CRA will assess based on perceived intent of the taxpayer at the time of purchase and development/renovation*
- *Frequency of transactions will also be a consideration*
- *Consider incorporated to benefit from small business tax rates*

New build vs Renovated home

- *HST Implications of selling a new residential property*
 - *HST applied to sale price if never lived in.*
 - *Builder can claim Input tax credits for cost of construction*
- *Substantially renovated home = new home (90% rule)*

Building a home for yourself to live in

- **Pay attention to the HST implications**
- **Don't claim the ITCs, otherwise HST is applied to the FMV upon completion**

- **Additional closing costs**
 - *Taxes, levies, development charges, HST*
 - *Additional HST to be paid on closing if property is to be rented out*
- **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 on closing!*

CONTACT INFO



Daniel DiManno, CPA, CA
PARTNER

P: 416-551-0760

E: daniel@capstonellp.ca

W: www.capstonellp.ca