



**BARTLEY-HATHAWAY**  
BUSINESS SOLUTIONS

## Minimizing Your Tax Liability

*Planning your investment strategy  
now will save you thousands later*



**BARTLEY-HATHAWAY**  
BUSINESS SOLUTIONS

We offer a number of business and financial management solutions to small business owners in Cornwall and the United Counties.

- Financial Management, Bookkeeping and Payroll
- Business Start-Up Services
- Legislative Compliance
- Incorporation Services and Advice
- Business Consultation
- Personal and Corporate Taxes
- Cloud Accounting and Business Management Tools

## Peter Lindop, C.P.B., F.I.C.B.

- Over 35 years in the Finance Industry
- Member of the Board of Directors for the Institute of Professional Bookkeepers of Canada
- All-round general nice guy...



## When is the best time to plan your Exit Strategy?

- BEFORE you buy your first Investment property!



**Q. What *should* be your biggest concern when you sell an Investment Property?**

- *Minimize Income Tax!!!*



**Q. What unexpected events could happen that can force you to sell your property before you are ready?**



**Some Examples**

- Marriage Breakdown
- Dispute between Co-Owners
- Non-Payment of Debts
- Death



**1. Marriage Breakdown**



- If the property is owned jointly, the spouse may want to be paid out for their share
- Under Ontario Family Law, the spouse may be entitled to HALF the value of all the assets...



## 2. Dispute Between Co-Owners

- The friendship / relationship sours, and someone wants out
- Someone runs into personal financial difficulty and wants out



## 3. Non-Payment of Debts

- Mortgage is in arrears; bank is looking at power-of-sale or foreclosure
- Other Creditors (including CRA), place a lien on the property
- Third Party Lawsuit



## 4. Death

- CRA rules deem that all of your assets were sold at fair market value on the day before your death
- Your investment property is disbursed according to either how it is *registered* or according to your *will*



## So, what are the Income Tax implications when you sell an Investment Property?



### So, what are the Income Tax implications when you sell an Investment Property?

- Income Tax on Rental Income for that year
- Possible recapture of C.C.A. (Capital Cost Allowance) previously claimed in all prior years
- Capital Gains Tax



### Recapture of C.C.A - Example

Property Purchased – June 2000			\$ 120,000
Portion Allocated to Land	(20%)	\$ 24,000	
Portion Allocated to Building	(80%)	\$ 96,000	
Expenses Incurred to Purchase		\$ 5,000	
Total Property Cost – June 2000			\$ 125,000

Property sells for \$175,000 in June of 2013. C.C.A. claimed every year at 4% of declining balance.



### Recapture of C.C.A - Example

Property SOLD – June 2013			\$ 175,000
Original Undepreciated Capital Cost (building % + expenses to purchase)			\$ 101,000
Accumulated C.C.A. claimed every year for 12 years	\$ 37,900		
Undepreciated Capital Cost	\$ 63,100		
Recapture of Capital Cost Allowance		\$ 37,900	

**\*\* \$37,900 is added to the Rental Income in tax year the property was sold \*\***



... Just Checking ...



## Capital Gains Tax

Property SOLD – June 2013		\$ 175,000
MINUS – Original Cost of Land	\$ 24,000	
MINUS – Undepreciated Capital Cost	\$ 63,100	
MINUS – Recapture of C.C.A.	\$ 37,900	
MINUS – Expenses to sell property	\$ 1,500	
<b>CAPITAL GAIN</b>		<b>\$ 48,500</b>

Taxable Capital Gain = 50% of \$48,500 or  
**\$24,250**

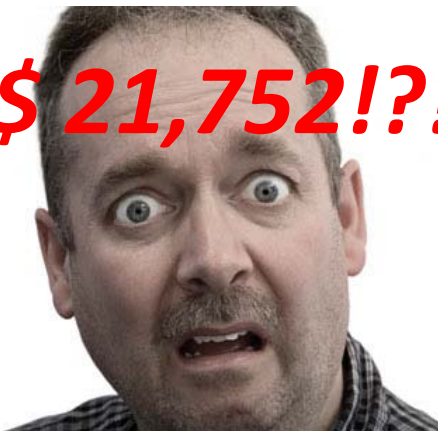


## Additional Taxable Income in the Year the Property Sold...

Taxable Income	Amount
Recapture of Capital Cost Allowance (First Example)	\$ 37,900
Taxable Capital Gain (Second Example)	\$ 24,250
<b>Total Income</b>	<b>\$ 62,150</b>
<b>ESTIMATED TAX @ 35%</b>	<b>\$ 21,752</b>



**\$ 21,752!?!**



## What can we do to minimize these taxes?

1. Consider how to register the property *before* you buy
2. Decide whether or not to claim Capital Cost Allowance
3. Decide on the allocation between land and building(s) at the time of purchase



## Registration of the Property

- Your Name Alone
- Your Spouse Alone
- Joint Tenants
- Tenants in Common
- Trust
- Partnership
- Corporation



## 1. Your Name Alone

### Advantages

- You alone own the property
- You can leave the property to anyone you want in your will



### Disadvantages

- All income tax obligations are yours (no income splitting)
- Property is subject to Family Law Act rules



## 2. Your Spouse's Name Alone

### Advantages

- Same as previous slide **PLUS** there may be Income Splitting opportunities if your spouse has little to no other income sources



### Disadvantages

- Same as previous slide (except for the income splitting)
- You have **NO** control over the property... your spouse has entire legal say.



## 3. Joint Tenants

### Advantages

- Income tax obligations are split equally among all joint tenants
- If one tenant dies, the property passes to the surviving tenants with no immediate tax consequences\*



### Disadvantages

- **All tenants have 100% control over the property**
- Property is subject to a lien if any one of the joint tenants has financial or marriage difficulties
- You cannot will your share of the property to anyone else when you die



### 4. Tenants in Common

#### Advantages

- Each tenant owns a pre-determined percentage of the property
- Each tenant is responsible for their share of the income tax obligations
- Each tenant can sell or will their share to anyone they choose



#### Disadvantages

- A tenant can sell or will their share to someone undesirable to the other tenants
- Complicated process to sell one person's share without selling the whole property (difficult, but not impossible)...



### Decide Whether or Not to Claim C.C.A.

- **RULE:** You cannot create or increase a rental loss by claiming capital cost allowance



### Claiming C.C.A.

#### Advantages

- Reduce the current years' taxable income
- You can choose year by year whether or not to claim C.C.A.
- Defer your tax obligation to some future date



#### Disadvantages

- Recapture of C.C.A. upon disposition of property can leave you with a hefty tax bill
- Additional income may put you into a higher tax bracket



### Property/Building Allocation

#### Advantages

- Land cannot be depreciated
- Subject to capital gains tax only (better tax treatment upon disposition of property)



#### Disadvantages

- Land cannot be depreciated
- Amount allocated to land must be "reasonable"
- Unreasonable amount may require proof



### Summary

1. Consider what the long term tax implications will be
2. Consider what type of registration will be best in **your** situation
3. Consider how your death will affect your investments and your family's future



### Summary

4. Talk to an Advisor about Tax and Estate Planning <insert shameless plug here>
5. Create or adjust your will to reflect your wishes and reduce your final tax obligations as much as possible...

... unless you really don't like your kids...



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