CESTNICK

TAX MATTERS

If you want to own a property, consider these strategies first

SPECIAL TO THE GLOBE AND MAIL
PUBLISHED SEPTEMBER 23, 2021

It's no secret that people want homes – for all kinds of reasons. During the pandemic, some urban dwellers have bought places that are more rural, and others have taken advantage of low interest rates to buy new places. Still others have bought investment properties because of FOMO – the fear of missing out.

So, how can a person afford to buy a home? What's the best way to hold or own a property? Are cottages or cabins a good idea? What about income properties, or U.S. real estate? There's a lot to talk about. Today, I want to start by talking about financing properties, and structuring ownership.

FINANCING PROPERTIES

If you're aiming to own a property, consider these sources of financing:

- **Savings.** A tax-free savings account (TFSA) is a great way to set aside funds for future real estate ownership because you can pull the money out tax-free and increase the funds tax-free in the meantime. You can also use the RRSP Homebuyers' Plan to help with a down payment.

- **Loans from family.** There are some parents, grandparents and other family members who have the means and willingness to help out. The key here is to document properly the nature of any loan or gift. (See my column from last week on a loan gone wrong.)

- **Traditional mortgages.** Given the price of homes today, it can be tough to qualify for a mortgage large enough to buy a place. Consider buying a place where you can rent out a room or basement apartment to generate income from the property. This may make a mortgage easier. Or perhaps a parent would be willing co-sign a mortgage.

- **Home equity line of credit.** If you're contemplating a second property, consider taking advantage of the equity accumulated in your existing home. You can do this through a home equity line of credit. Check out the article by Globe and Mail contributor Mary Gooderham on the topic earlier this year (tgam.ca/HELOC).

- **Vendor take-back mortgage.** With interest rates so low, some sellers may be willing to take back a mortgage on a property that you buy from them. It could be a win-win if you're able to secure this financing and the seller is happy with the higher yield than they'll get from a guaranteed investment certificate or other interest-bearing investment.

- **Joint ownership.** If you can't afford a place on your own, you might consider buying a property with another person willing to make an investment with you. Documenting the agreement is key, and you should engage a lawyer to help put the arrangement in writing.

OWNERSHIP OF PROPERTIES

I'm constantly having conversations with folks about how to hold, or own, their properties. Should a property be held in your own name? The name of your spouse or a child? Should your corporation or a trust own the property?

As a general rule, I like to preserve the possibility of claiming the principal residence exemption (PRE) on a property, which generally means you'll want to own the property in a person's name, not in a corporation or trust. Putting the property in the name of an adult child could open the door to using their PRE if they don't already own a property – but this may also mean giving up control over it unless you have some other legal agreement that allows you to control what is done with the property. You might also take back a mortgage on the property so that you have some measure of financial control if a child is going to own the place.

Buying a property in a corporation can make sense if you don't care to use the PRE on the property and the funds to make the purchase are already in the corporation. Just be aware that the taxman could look to assess a taxable benefit on you for making personal use of a corporate asset – unless you pay fair market rent or use the property solely for income-producing purposes.

While it may be possible to borrow money from your corporation using a bona fide loan to purchase or refinance a home, this will have to be done in your capacity as an employee, not a shareholder, for this idea to work – and it may be tough to convince the taxman that you've done this.

If you're a beneficiary of a trust that owns the property, you may also run into a taxable benefit for personal use of a trust asset. While the taxman won't generally insist on rent being paid to the trust, the taxable benefit could apply if the trust is paying for maintenance and upkeep of the property on behalf of the beneficiary. Be sure to speak to a tax professional before you make any final decisions about how to structure the purchase of a property. I'll continue this conversation next time.

Tim Cestnick, FCPA, FCA, CPA(IL), CFP, TEP, is an author, and co-founder and CEO of Our Family Office Inc.
He can be reached at tim@ourfamilyoffice.ca