



CESTNICK

TAX MATTERS

It's time to get creative in solving the housing affordability problem

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When I was young, I remember I had trouble paying my electricity bill. Those were pretty dark times (literally). Young people these days face an even bigger challenge in affording a place to live. Today, I want to share an idea that could make sense as many contemplate how the next generation will be able to afford a home. It could start with a new tax credit that came into effect this year and an ability and willingness to build on your existing property. I'll then share the arrangement one family is considering.

The Credit

In case you missed it, the government introduced the multi-generation, home-renovation tax credit (MGHRTC) in the 2022 federal budget to reduce the cost of renovating a home so that seniors, or those with disabilities, can live with family members. The MGHRTC came into effect for renovations completed and paid for starting Jan. 1 of this year.

This refundable tax credit can be claimed on up to \$50,000 of qualifying expenditures and will result in a tax credit worth 15 per cent of those costs claimed, or a maximum of \$7,500 in your

pocket. Now, to claim this tax relief, you have to be a qualifying individual paying for qualifying expenditures to complete a qualifying renovation to an eligible dwelling to be occupied by you or an eligible individual who is a qualifying relation. Whoa – that was a mouthful.

I'm not going to walk through all the definitions of "qualifying" and "eligible" today. You can read the rules if you go to www.canada.ca and enter "MGHRTC" in the search field. But it's worth noting a few things here. First, the Canada Revenue Agency wrote a technical interpretation on March 6, 2023, (a letter to a taxpayer: document 2023-0960671E5) about the MGHRTC. It confirmed that the renovation can actually consist of constructing a separate dwelling – such as a carriage house, coach house, lane house, granny flat (or whatever you want to call it) – on an existing property. It doesn't have to be a renovation to an existing residence.

Constructing a carriage house like this could solve a couple of issues: (1) it could provide a child or grandchild with a home to live in at a time when real estate affordability is out of reach for many

folks, and (2) parents or grandparents might benefit from having family close by to help look after them as they age, or to help family members with a disability.

Don't forget that it's going to be important to figure out whether your municipality will allow the construction of a carriage house on your property, but a growing number of jurisdictions are allowing this. The tax man won't provide the MGHRTC for a carriage house unless it's legal to build the place on your property.

The Arrangement

Let's face it. No one is going to build a carriage house solely because the government chips in \$7,500 toward the construction. But let's focus on the need for housing first and foremost. A family I spoke with recently is considering the following type of arrangement:

- The grandparents are going to build a carriage house on their existing property that will be occupied by their grandson and his wife, who currently can't afford to purchase their own home.
- The grandchildren occupying the carriage house will pay some rent (below market value in this case) to the grandparents to help cover certain costs of maintaining the property, including utilities, maintenance and property taxes.
- The grandson and his family will be available to help the grandparents with certain things since they are aging and less able to look after the property, and themselves, on their own.

- The family is considering an arrangement where the grandson will contribute to the cost of the construction by lending funds (at no interest) to the grandparents for this purpose. If they go down this path, they're considering a repayment of those funds to the grandson later if the house is sold (either during the lifetime of the grandparents or upon the death of both grandparents). They're even considering gifting an amount over and above the lent funds to the grandson to reflect the increase in value of the property resulting from the carriage house.
- The grandparents may also give their grandson a right of first refusal to buy the entire property if the time comes to sell it. They'll want to speak with a real estate lawyer about this idea to understand the pros and cons, and how it should be documented.
- If the grandson and his family move later, the grandparents can rent out the carriage house for additional income.

Perhaps it's time to get creative when solving the housing-affordability issue families are facing. And if you can claim some tax relief in the process, even better.

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