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TAX MATTERS

Make owning a home more affordable in 2024

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We were talking about New Year's Eve this week, and the plans we have to celebrate the arrival of 2024. My kids suggested that, as a family, we should make our way to New York, since it has probably the best celebration in North America. I felt a bad dad joke coming on, so I couldn't resist: "Kids, I'm telling you, the New York celebration is overrated. They drop the ball every year." Groan.

The conversation then turned to a bunch of other topics, including ugly Christmas sweaters, new year's resolutions and how expensive it is to buy or own a home these days. As we head into 2024, why not make it a new year's resolution to make home ownership more affordable? How so? By turning a home into an income-producing opportunity. Here's a primer for you.

The basics

I told my kids about the first home I purchased. They practically cried when I told them I paid \$115,000 for the place, with a \$10,000 down payment. Those days are gone. But my idea at the time was to rent out part of the residence to help cover my mortgage. It worked great.

Whether you're looking to buy a home or defray the costs of the home you already own, earning rental income from the property can make good sense. It opens the door to claiming a deduction for a portion of many costs you're paying for anyway (mortgage interest, property taxes, insurance, repairs and maintenance, utilities and more) and may make it easier to qualify for a mortgage.

If you're living in the residence as well, renting out part of the place doesn't have to jeopardize your principal residence exemption (PRE), which can allow you to eventually sell the property tax-free. You can still claim the PRE provided the rental activity is "ancillary to the main use of the property as a residence; there is no structural change to the property; and you don't claim capital cost allowance (depreciation for tax purposes) on the property."

So, if you rent out more than half your property, the taxman could conclude that your rental activity is not merely "ancillary to the main use of the property as a residence." Or if you make structural changes to the residence to, for example,

create a separate self-contained unit for rental, the taxman will take note.

In these cases, you'll be deemed to have sold that part of the property that has been converted to a rental, and to have reacquired that part of the property at its current fair market value. You won't generally pay tax on this deemed disposition if you can use your PRE to shelter a capital gain if there is one. But when you sell the property later, the part of the residence that is the rental unit won't generally qualify for the PRE. Check out the taxman's Income Tax Folio S1-F3-C2, Principal Residence, available at www.canada.ca, for more information.

Still, if you plan things right, earning rental income to supplement your other income could make it easier to buy a home, or afford the home you already own.

The nuances

Here are some additional tips and thoughts on home ownership:

- I still believe that home ownership is a worthwhile pursuit, even if it takes several years – or longer – to make it a reality. Start saving what you can for a down payment and open a First Home Savings Account (FHSA) as a vehicle to make this easier. You can save up to \$8,000 a year, or \$40,000 in your lifetime, in these tax-sheltered plans.

- Keep your credit score above 680 to qualify for a mortgage and aim to save at least the minimum down payment over time, which is 5 per cent of the purchase price for a residence under \$500,000, and for purchases between \$500,000 and \$999,999, the minimum is 5 per cent on the first \$500,000 and 10 per cent on the balance.

- Start small and far enough out. Don't aim to buy your forever home as your first home. Start with something smaller – if it's easier to afford. Then build some equity, and upgrade later if you want. And if you have to move away from a big city to afford a place, this could be worth your while.

- Work with a trusted mortgage broker to find financing. Speak to friends and family about someone they might know who can help. A mortgage broker can help you get preapproved for a mortgage and help you understand what you can really afford.

- I want to discourage you from borrowing from private lenders who charge outrageous interest rates and fees; stick with a major bank, trust company or credit union. If you can't qualify at one of these institutions, then you're not ready for home ownership.

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