

# Real Estate Monthly

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## Housing Promises and the New Conservative Government

Canada's new minority government has taken power, after more than a decade of Liberal rule. Housing issues did not take centre stage during the recent campaign, but cutting the GST will have a big impact on new home buyers.

Visiting a home building site on January 19, 2006, Mr. Stephen Harper announced that the Conservatives would maintain the GST New Housing Rebate. The savings on a new \$200,000 home would be



\$2,000, growing to \$4,000 once the GST cut is fully implemented. In addition, at 6% GST, the rebate on a \$200,000 home would be \$4,320 and at 5%, the rebate would be \$3,600.

The Canadian Home Builders' Association (CHBA) issued a statement that welcomed Mr. Harper's GST proposal. "We anticipated from previous Conservative statements that reductions in the GST rate would significantly

benefit new home buyers," said David Wassmandorf, CHBA president. "It is good to have this confirmed. This Conservative proposal would open the door to a plan to keep the GST rebate in line with changes in housing prices on a permanent basis, though indexation."

The CHBA says that the proposals would restore the effective rate of federal sales taxes on new homes to the level that applied prior to the introduction of the GST in 1991. "Our association has been urging that this be done since the GST was first introduced," Wassmandorf said.

The Urban Development Institute, Ontario Chapter, was also pleased with the GST proposal and Mr. Harper's comments, stating that it "sees it as a positive signal for consumers to purchase a new home and ensure the long-term health of the development and construction industry."

The CHBA also approved of the Conservatives' position on municipal infrastructure and a plan to reduce the tax load on small business.

### Eye on Ottawa Real Estate

According to statistics just released by the Ottawa Real Estate Board (OREB), there were 653 home sales in January 2006. There were 668 sales in January 2005. The average price of residential properties, including condominiums, sold in January 2006 in the Ottawa area was \$244,075.

"The figures for January 2006 provide some interesting information for buyers and sellers," said OREB's President. "The inventory of properties available for sale is about 9 percent higher than this time in 2005. The Ottawa real estate market is indeed "steady going" and is showing signs of activity similar to that in 2005."

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## Q & A: Protecting Your Profit From Capital Gains Taxation

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*Under the federal Income Tax Act, property owners are entitled to tax-free profit on the sale of their principal residence, provided they follow the Canada Revenue Agency (CRA) guidelines. A capital gain is the net difference between the cost of a property and the sale price.*

*Many Canadians take the tax-free status of their home for granted. To protect your principal residence exemption from capital gains taxation, seek professional advice before you act. The information provided here answers general questions, but does not replace professional advice and is not intended to provide a professional opinion or advice for a specific tax issue. Contact professional tax and legal advisors to assess your particular situation and needs, and use the CRA glossary for any unfamiliar terms.*

**Question:** I used part of my home as an office and part as a principal residence. Will this impact my claim for tax-free status if I sell my home?

**Answer:** If you also use your home as a place of business and claim capital cost allowance, you would need to assess that portion of the home used for business and prorate the capital gain between the tax-free principal residence portion and the business portion. The business portion would be taxed at the current capital gains inclusion of 50 percent of the gain taxed at your marginal tax rate. If you use one room in your home as an office or nominal use of your home and do not claim capital cost allowance, you may be able to avoid any capital gains tax on the sale of the home. The particulars of your case would need to be assessed by your tax advisor to ensure that

you avoid capital gains tax on the sale of this home.

**Question:** I have a family cottage that I inherited while I owned a principal residence. The cottage has sky-rocketed in value since I got it and now I want to sell. Do I need to pay tax on this property and, if so, how much?

**Answer:** The cottage property was inherited at its fair market value at the time of title registration in your name. If you renovated the cottage, additional costs would be added to the fair market value at inheritance. The cottage value and costs of renovation would be the tax cost of the cottage for purposes of capital gains tax. In certain circumstances, you may also add property taxes paid for the cottage. The proceeds that you receive are reduced by the legal fees/disbursements and sales commission to the real estate agent, if any, and the tax cost of the property. Fifty percent of the capital gain is included in your income and taxed at your marginal tax rate. Contact a tax advisor to evaluate the net after-tax result before you sell.

**Question:** What if I move back into the cottage? How long would I need to wait before I could sell it tax-free as my principal residence?

**Answer:** It does not matter if you move back in. The tax rule requires you to allocate the number of years that you held the cottage as your principal residence. Remember that only one principal residence can be owned after 1981. If you own two residences at the same time, you will need to prorate the capital gain on the sale of each residence to the extent the residence sold was designated your 'tax-free' principal

residence. The necessary calculations are best carried out by those well versed in the tax rules.

**Question:** I want to give my home to my son and his wife. What are the tax issues?

**Answer:** If you give your home to your child, there would be a deemed disposition and capital gains tax would accrue only to the extent that the property was not your principal residence. This is determined by counting the years that you claim the gifted property as your principal residence plus 1 year, then divide this number by the total number of years that you owned a principal residence. The prorated gain, if any, would be included in your taxable income at the current inclusion rate of 50 percent and taxed at your marginal tax rate.

Complications could include the following:

- Issues that may arise under family law that could result in the donated residence being attached by your former daughter or son-in-law upon dissolution of your child's marriage.
- If your child is spendthrift or possibly insolvent and subject to creditors, they may attach liens on the property that you donated.
- Transferring the property to a family trust may prove wise. Your tax and legal adviser and an estate planner can help you to decide on the best way to gift property to your children or to provide financial support to relatives and avoid unexpected disappointment.