

# Tips – 7 Strategies for Real Estate Investors

**You will find answers to 7 very important questions all REIN members need to know**



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**You will find answers to 7 very important questions all REIN members need to know**

- When, if ever should I incorporate?
- What is the difference between flipping & buy/hold in CRA's mind?
  - How can I keep my interest deductible?
  - When is a renovation not a renovation?

**Bonus questions in handout only!**

- How and why should I organize my records?
- How can I use a tax calendar to plan my savings? (2011 tax calendar attached)
  - What are some GST/HST catches with real estate?

**This handout contains articles related to each of the above topics, plus a printout of the slides for the PowerPoint presentation.**

If you are interested in a consultation please contact Jacqueline at [info@dubeaccountants](mailto:info@dubeaccountants).

**You need a professional with the expertise you are looking for as compared to a regional representative nearby.**

**Well over 2/3 of our meetings are over the phone, due to distance, we would be happy to book your consultation whether in person or over the phone.**

**Important Disclaimer:**


This presentation/handout contains general comments and should **NOT** be acted upon without the advice of a qualified tax professional. While there may be similarities, every situation is different.

**Thank-you...**






## Tips – 7 Strategies for Real Estate Investors



## Agenda

- When, if ever should I incorporate?
- What is the difference between Flipping & Buy/Hold in CRA's mind?
- How to keep your interest deductible?
- When is a renovation not really a renovation?



## Incorporate or not to incorporate





## ...it depends!



## Incorporate ?

### Why do you care?






- Proper and flexible structure now saves \$
- Everyone is different
- Preparation and organization generate additional savings plus helps provide security



## Incorporate ?

### Framework:





1. Flexibility of choices
2. Legal issues
3. Taxation impact
4. Financing perspective
5. Investment and business considerations



## Incorporate ?

### Business structures Common examples include:





- Proprietorships
- Corporations
- Trusts
- Partnerships
- Limited partnerships
- Joint ventures




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## Incorporate ?

### Multiple entities

Watch out for getting caught up in the excitement...



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## Flipping & Buy/Hold in CRA's mind?




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## Flipping or holding

### Capital gains vs. income

- In selling a property we must report the profit
- Question is whether profit is a "capital gain" or "income"



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## Flipping or holding

### Multiple purposes of real estate complicates definitions

<p><b>What is a capital gain?</b></p> <ul style="list-style-type: none"> <li>• Generally derived from the sale of an investment asset which generates income from the property.</li> <li>• From a tax perspective, it is NOT income</li> </ul>	<p><b>What is income?</b></p> <ul style="list-style-type: none"> <li>• Derived from the sale of an "inventory" item held for the purpose of trade in a business.</li> <li>• A business includes "an adventure in the nature of trade"</li> </ul>
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## Flipping or holding

### Why do we care?

- Taxable portion of gain (50% vs. 100%)
- Tax rate differences
- Capital cost allowance only available for capital assets
- Maximum tax reserve periods (5 yrs vs. 3 yrs.)



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## Flipping or holding

### Why do we care (con't)

- "Rollovers" and reorganizations
- Additional expenses allowed for capital property that are otherwise included as part of inventory cost
- Deductibility of losses




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## Flipping or holding

**What does the *Income Tax Act* say?**

Very little  
So...



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## Flipping or holding

**What does the CRA say?**

- CRA's general administrative positions outlined in IT-218R

**Caution:**

- Rules of thumb
- Previous audit results and scope thereof
- Friend's audit results
- Advice over the phone



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## Flipping or holding



**What do the courts say?**

- It is a question of fact.
- Most litigated area in tax
- Primary intention
- Secondary intention
- Various factors considered to judge intention



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## Interest deductibility


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## Repair or improvements?

**Capital vs. current expenses**

**Capital expenses:**

- Generally characterized by paying for something which will provide an enduring benefit beyond 12 months.
- A betterment to property




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## Interest deductibility

**All interest deductible?...**

- Lipson (2009) and Singleton (2001) court cases (SCC)
- Replace non-deductible debt with deductible debt
- Smith Manoeuvre?
- Sherle (TCC)/Scragg (FCA)




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## Interest deductibility

**Sherle Background**

**Simplified version:**

- Converted principal residence to rental
- Converted rental to principal residence
- Mortgage put on 1<sup>st</sup> personal property prior to rental change – proceeds pay off rental mortgage on 2<sup>nd</sup> property
- Afterwards new mortgage on 2<sup>nd</sup> property, various debts repaid with proceeds




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## Interest deductibility

**Sherle con't**

- Nina deducted interest on 1<sup>st</sup> mortgage
- CRA denied deduction – tracing/direct use of funds
- Court said...




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## Interest deductibility

**Scragg (FCA)**

- Attempt to deduct interest on borrowed funds
- Unable to trace purpose of borrowed funds to eligible use



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## When is a renovation not really a renovation?





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## Repair or improvements?

**What is a repair (current expense)?**

- Expenditures incurred to bring an asset back to its original condition.
- Replacing carpet? roof? windows? appliances?
- More of an art than a science.




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## Repair or improvements?

**What would CRA say?**

- IT-128R
- Enduring benefit
- Maintenance or betterment
- Integral part of or a separate asset
- Relative value
- Acquisition/disposition





## Repair or improvements?

**If capital:**

We can “depreciate” (capital cost allowance) capital assets over time at prescribed rates.

**Examples:**


- Many buildings 4%
- Computer equipment 55% or 100%
- Furniture 20%
- Land 0%




## Repair or improvements?

**Should you take depreciation?**

- Many advise against due to “recapture”.
- Ignoring special situations related to your “principle residence exemption,” and timing of income for low bracket years, why ignore an interest free loan from the government?





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**Thank-you...**





## **When, if ever should I incorporate?**

When buying real estate today, think about what your situation will be in 10, 20 and more years? Will you have adequate resources available after taxes are paid? If all goes according to plan, you will age along with your investments. Discussing the appropriate ownership structure for your family, and how it will change over time, can save untold grief and taxes.

In the early stages, having the higher income spouse own properties and receive the deductions common to the early years of investment property ownership provides some tax advantages. As you earn additional income and sell properties, splitting properties between spouses may lower rates of tax within the family. But, changing property ownership can produce expensive tax consequences.

Considering alternative forms of ownership now, such as corporations and family trusts, is prudent. While alternative ownership may be completely inappropriate now, from a tax perspective it may be far more effective to allow for the benefits of a structure to accrue over time. For example, creating a family trust for real estate ownership while your children are five years old may provide an excellent vehicle to pay for post-secondary education while potentially protecting assets. The more time you have to plan and implement, the more benefits are available. You just don't want to go overboard in setting up an elaborate structure that generates additional costs and complexity to operate.

However, this is not a do-it-yourself project. While splitting income between family members is generally a good thing from a tax perspective, the CRA restrains certain activities with, for example, the 'attribution' rules. In essence, in some situations the CRA believes that income earned by a family member truly belongs to another who contributed the funds for the investment, or previously owned the investment.

We like to discuss structuring real estate investments within a framework of five major categories. Your priorities within the framework mean you can make the best decision for today, and tomorrow. Often, we provide completely different recommendations for very similar situations.

Ultimately you must decide what is best for you and your family, but you need the input from your advisors to appreciate the choices and ramifications. Unfortunately your advisors may have differences of opinion and so get them to explain why they believe in one course of action over another. Armed with this information you can make more knowledgeable decisions. Ideally, your advisors can have a brief discussion with each other and with you to highlight areas of agreement and disagreement. Then you can weigh the choices.

Generally, we consider our recommendations in the following order, allowing that priorities may differ. A quick overview of these priorities is provided.

### **1. Flexibility**

Personally, we like having as many choices as possible. Choices of how to remunerate owners, how to structure investments with co-investors without negatively affecting the co-investors, when to remunerate owners, who amongst the owners can be remunerated, how much owners should be remunerated, how properties within the portfolio may be disposed and changing the specific investors in a particular property. Corporations with joint ventures tend to provide more choices as compared to personal ownership or partnerships, for example.

### **2. Legal issues**

While this is the domain of lawyers and their advice is paramount, liability concerns are often critical for many investors so we offer some general comments. From our perspective, we don't believe that



anything approaching a universal opinion exists amongst the legal profession with well respected lawyers on both sides of the “should I incorporate?” question. While not generally an initial concern for investors, discussions of using family trusts in the legal context often takes place for some purchases once you own a base level of real estate. Advisors often talk about limited partnerships in the context of attracting multiple investors.

### 3. Taxation impact

From a tax perspective no one answer exists concerning forms of ownership with accountants in a similar position to lawyers regarding universality. This is further exasperated by the fact that a structure may be better or worse for you in different cases. For example, your timeline for investment, objectives of your investments, nature of your investments, other business and financial activities currently and in the future, plus family situation, all play a role. For someone unconcerned with flexibility and legal issues, who earns reasonable employment income and who is interested in a “buy and hold” strategy there is little tax incentive to incorporate.

Alternatively someone who wants to flip or develop properties, has more family members interested in owning real estate, or currently earns business income through a corporation may be more inclined to incorporate. Further, someone wanting to attract multiple investors may prefer to remain more neutral from a tax perspective. This can be accomplished using the “flow-through” capabilities of a limited partnership because the investors can themselves decide how they prefer to own their partnership units (for example, personally or through a corporation).

### 4. Financing considerations

With the guidance of your mortgage broker or financial institution representative, consider the impact of the potential structure on receiving financing for current and future properties. Various financing programs are often restricted to personal ownership, for example. Again, we’ve encountered a wide range of opinions from financing professionals but wish to emphasize that many legal and ethical ways exist to attract financing.

### 5. Professionalism and organizational issues

Generally speaking, we think a corporation provides a more professional image and an ability to segregate personal from corporate activities. This level of professionalism may, however, scare off potential vendors or co-investors. Similarly some people find it much easier to understand and track their real estate portfolio when everything is basically in the same pot, or owned personally as compared to having separate little “shelves” with one or more entities.

This brief synopsis shows that many choices exist, and in fact many more considerations and combinations are available, for ownership. But don’t get taken in by the sexiness of a fancy structure that you don’t understand and fails to meet your needs. You can grow into a structure when you’re ready. Changing your structure in the future may cost a little more, but you will have additional assets and cash flow to address these costs.

For additional details on this topic, please refer to Tip #17 from **81 Financial and Tax Tips for the Canadian Real Estate Investor** and on page 55 and 106 of **Legal, Tax and Accounting Strategies for the Canadian Real Estate Investor**.



## **What is the difference between flipping & buy/hold in CRA's mind?**

### **"Capital gains" vs. "income"**

I find that the majority of investors sell properties and automatically assume a capital gain has resulted. Discussions of an alternative possibility are frequently dismissed as heretical. An inappropriate tax filing position can produce an expensive and unexpected request from the Canada Revenue Agency (CRA), particularly if the transaction is one of several, audited a few years after the fact, allowing for the addition of interest and penalties for each transaction. However, preparation and education can help shield you from disaster.

### **What is a capital gain or income?**

From a tax perspective, we must categorize the profits (or losses) realized on the sale of a real estate investment. Generally speaking we can think of a capital gain as the profit from selling an income generating asset. On the other hand, income is typically generated where we sell an "inventory" item or asset available for sale.

### **Why do we care?**

In short, only 50% of the profits from a capital gain are taxed. Due to tax rate differences between individuals and corporations for example, plus the different types of income from a tax perspective, investors may at times prefer income treatment. However, for an investor who personally owns real estate, it will be difficult to see any alternative other than paying half of the taxes otherwise payable. Other reasons include but are not limited to:

- capital cost allowance is available to capital assets but not inventory,
- differences in the length a tax reserve may be taken (a period of time where the profits can be brought into income potentially over 3 or 5 years),
- restrictions on tax free reorganizations (methods of transferring ownership of properties or corporate shares for example without immediately incurring taxes – frequently used in estate and succession planning)
- restrictions on deductibility of certain costs which may otherwise need to be included as a cost of the inventory and thus not deducted until the property is sold

### **How do we distinguish between capital gains and income?**

The *Income Tax Act* is of minimal assistance here, so we must look to what the CRA and more importantly the courts see as defining characteristics. A strong caution is warranted to investors who rely on rules of thumb (such as if you hold the property for a given length of time a capital gain will be the result), previous audit results (the auditor may not have been focusing on the CG vs. income question or may not have been as knowledgeable about the issue) and receiving advice over the phone from the CRA (the CRA is not bound to this advice even when it was clearly incorrect). The CRA provides an excellent reference as to their opinion of how the Income Tax Act should be read, Interpretation Bulletin 218R Profits, capital gains and losses from the sale of real estate. As one of the most litigated areas in tax the courts have had ample opportunity to provide commentary. It often comes down to a "question of fact" which provides a fair deal of subjectivity in how to interpret actual events.

The primary factor courts look to is the "primary intention" of the taxpayer. If you are looking to receive income from the investment itself (or use the property in another business you operate) in the form of rental profits it is more likely that you will realize a capital gain. Alternatively, where you are trying to generate your profits from the sale of the property itself, this is more indicative of an income intention.

There is a cruel joke in my mind called “secondary intention” which provides that where the taxpayer had a back-up plan to sell the property if things didn’t quite work out right, the profit may be classified as income. Fortunately there are a variety of cases which contradict these findings, but attention is still needed here.

### **Points of consideration by the courts**

The courts have considered a wide variety of factors which they use to help them interpret the intentions of the taxpayers. No one indicator is by itself determinative but there can be depending on the situation more weighting provided to specific factors. Further, specific indicators can often be interpreted in favour of either CG or income.

- Feasibility (can you realistically do what you say you can?)
- Extent to which plans were carried out
- Geography and zoning (are you purchasing in a speculative area or does the zoning permit your stated intentions?)
- Nature of the property including developed vs. undeveloped, high vs. low income capacity
- Frustration of primary intent (was there something beyond your control preventing you from implementing your plans?)
- Business organization (do you look like a sophisticated business)
- Efforts made to effect sale (unsolicited vs. MLS listing for example)
- Evidence of change of intention (perhaps intending to convert to condo status)
- Nature of business of taxpayer/associates
- Use of borrowed money and terms (leverage, open/closed, capacity for income, etc.)
- Length of time property held (please please please be cautious of rules of thumb)
- Other participants (you are who your friends are, intentions of controlling party, occupation of others)
- Reasons for sale which may be a gauge as to original intention
- Evidence of extensive dealings with real estate

### **Planning points**

Credibility and integrity are your primary tools in subjective questions open to interpretation. As many of these factors can be interpreted differently even with the same facts, you need to ultimately be able to support your position. It will help where you can demonstrate to the CRA that you are capable of segregating your properties between CG and income. While there are different ways of accomplishing this, one way is in ensuring that your financial statements have been prepared correctly.

As you prepare to enter into transactions, consider carefully who your partners, coventurers or fellow shareholders are. Analyzing the legal agreements from a tax perspective is important to ensure to the degree possible that they are tax friendly – but appreciate that legal concerns may trump tax considerations. Lastly, ensure you have taken the time to document your thoughts and plans prior to completing the transactions. Years from now, you may not remember all of the factors you were considering when purchasing and operating each property. Needless to say, where your advisors have some of this critical information in their files, long before questions arise, your credibility will be enhanced significantly.

For additional details on this topic, please refer to Tip’s 53, 54, 55, and 56 from ***81 Financial and Tax Tips for the Canadian Real Estate Investor*** and on page 44 of ***Legal, Tax and Accounting Strategies for the Canadian Real Estate Investor***.

## **How can I keep my interest deductible? Interest Deductibility using the “Smith Manoeuvre”**

You deserve a little more money in your pockets – and we’re going to help you put it there! One of the largest expenses we have tends to be the mortgage on our home. Following traditional rules, we are limited to deducting at best a small percentage of the interest where we use a home office for business purposes. However, using non-traditional planning, we are able to deduct potentially 100% of the interest costs. Your tax savings will vary based on where you live in Canada, your income level and the amount of interest you pay. As a quick example though, with a mortgage of \$200,000 at 4.5%, your tax savings could be approximately \$3,000 per year. While this may not by itself create financial freedom, imagine receiving these savings year after year – with minimal effort required. Imagine the impact of a higher interest rate or larger mortgage.

A popular nick-name for describing some of the possible techniques is the “Smith Manoeuvre” coined by Frasor Smith. A variety of versions of the plan exist, and vary in aggressiveness and implementation to suit your needs and comfort. With a recent Supreme Court decision related in part to questions surrounding the appropriateness of interest deduction plans, tax advisors have largely been given the green light to help clients restructure their affairs in an optimal fashion.

In its simplest form, these interest deductibility techniques allow homeowners the ability to convert the non-deductible portion of the interest on their mortgage to fully deductible over a period of time. This period of time is typically several years, however, your financial situation and aggressiveness may dramatically decrease this time.

A variety of mortgage products provide the ability to divide your mortgage into at least two segments which allows you to track the interest expense on these segments separately. Your total mortgage will typically be set at 75% or 80% of the value of your home. If you are permitted a total mortgage of \$200,000 on your home, you may start with the “bad” portion (non-deductible) of the mortgage at this \$200,000 and the “good” portion (deductible) of the mortgage at zero. As you make payments on the mortgage, your principal on the bad mortgage will decrease leaving you additional room to borrow on the good debt. In other words, your total mortgage may still be \$200,000, however it is divided between good and bad debt.

So, what do you do with this good debt? You invest. Traditionally this was thought of as an excellent vehicle to acquire mutual funds and similar investments. However, this may be a great opportunity for you to go beyond and invest in YOUR business.

You may be able to shorten the conversion time of your bad debt where for example you have non-registered financial assets that can be sold and the proceeds used to pay down some bad debt. Tax refunds, inheritances, unexpected sources of funds, extra mortgage payments are further ways of speeding up the conversion.

While restructuring must be done properly, your efforts will be rewarded. Talk to your tax, mortgage and investment advisors to determine whether such a plan can work for you and you are comfortable with the full implications. Also work closely with your mortgage advisor as you pay close attention to the features of the mortgage product that you use to ensure you have the required flexibility to accomplish your goals. There are significant differences between the products beyond the interest rates which command your attention.

This article is brief in nature and omits many important details that may dramatically change how financial plans may affect your particular situation. This should not be considered tax, investment, business or similar advice. Before implementing any plans, always discuss in full with your tax advisor and other relevant advisors.

For additional details on this topic, please refer to Tip #72 from ***81 Financial and Tax Tips for the Canadian Real Estate Investor*** and on page 41 of ***Legal, Tax and Accounting Strategies for the Canadian Real Estate Investor***.

## **When is a renovation not a renovation?**

### **Repairs and maintenance vs. capital expenditures**

Frequently we are attempting to differentiate between repairs which we can deduct immediately and capital expenditures which are deducted over a long period of time. Typically of course taxpayers want their deductions now, thus reducing their taxes, but must appreciate that Revenue Canada knows that this is an area subject to significant debate.

Generally speaking if we incur an expenditure which will benefit us for greater than 12 months, we will have a capital asset. With this extended benefit, Revenue Canada wants us to deduct the cost of the asset over a period of time as compared to all at once. For example, if we were to add a new room to our rental property, we would not be able to deduct these costs in the year incurred. Rather, we would add the cost to the building itself and slowly deduct over time as permitted. In practice this simplification becomes difficult.

Revenue Canada provides guidance to taxpayers through *IT-128R Capital Cost Allowance — Depreciable Property*. In section 4 they describe factors to consider.

(a) Enduring Benefit — Decisions of the courts indicate that when an expenditure on a tangible depreciable property is made “with a view to bringing into existence an asset or advantage for the enduring benefit of a trade”, then that expenditure normally is looked upon as being of a capital nature. Where, however, it is likely that there will be recurring expenditures for replacement or renewal of a specific item because its useful life will not exceed a relatively short time, this fact is one indication that the expenditures are of a current nature.

(b) Maintenance or Betterment — Where an expenditure made in respect of a property serves only to restore it to its original condition, that fact is one indication that the expenditure is of a current nature. This is often the case where a floor or a roof is replaced. Where, however, the result of the expenditure is to materially improve the property beyond its original condition, such as when a new floor or a new roof clearly is of better quality and greater durability than the replaced one, then the expenditure is regarded as capital in nature...

(c) Integral Part or Separate Asset — Another point that may have to be considered is whether the expenditure is to repair a part of a property or whether it is to acquire a property that is itself a separate asset. In the former case the expenditure is likely to be a current expense and in the latter case it is likely to be a capital outlay. For example, the cost of replacing the rudder or propeller of a ship is regarded as a current expense because it is an integral part of the ship and there is no betterment; but the cost of replacing a lathe in a factory is regarded as a capital expenditure because the lathe is not an integral part of the factory but is a separate marketable asset...

(d) Relative Value — The amount of the expenditure in relation to the value of the whole property or in relation to previous average maintenance and repair costs often may have to be weighed... On the other hand, the relationship of the amount of

the expenditure to the value of the whole property is not, in itself, necessarily decisive in other circumstances, particularly where a major repair job is done which is an accumulation of lesser jobs that would have been classified as current expense if each had been done at the time the need for it first arose; the fact that they were not done earlier does not change the nature of the work when it is done, regardless of its total cost.

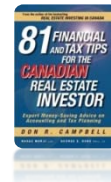
Court cases particularly since the creation of the Interpretation Bulletin are contradictory in many instances although often hold at least in part to the above opinion from Revenue Canada.

The most notable exception to the above guidelines for real estate investors relates to purchasing a property and incurring various repair expenditures during the first year. These expenditures are much more likely to be viewed as capital where the repairs were used to put the property in a "suitable condition for use." What may otherwise be a normal deductible repair in later years could be considered capital in the first year of ownership. The same can be true for the year a property is sold.

Determining whether an expenditure can be deducted immediately or over time is more of an art than a science, but is a critical part of your tax planning. A variety of techniques can be implemented to help you influence the treatment, but are better done in advance as compared to when preparing your tax return. Discussions with your accountant can pay huge dividends.

Please exercise caution as this article is general in nature and should not be relied upon or acted on prior to discussion with your qualified tax advisor.

For additional details on this topic, please refer to Tip #35 from **81 Financial and Tax Tips for the Canadian Real Estate Investor**.





## **How and why should I organize my records?**

### **Taming the paperwork monster**

Boxes of papers? Not sure you've paid all your invoices? Investors asking questions? Tax deadlines looming? Tax auditors requesting information?

Sounds like you've got a paperwork monster on your hands. It's time to tame it with a system that works for you.

Many investors dread the prospect of tracking the activities of their rental properties. In my mind, however, investors should view this as an opportunity. Having a system reduces implementation woes, and worse, the constant pain of fighting the paperwork monster. If you are determined to expand your real estate empire, the time for paperwork planning is now, regardless of whether you do the bookkeeping yourself or outsource it.

### **Why now?**

If nothing else, the Canada Revenue Agency provides a mighty incentive. An organized system makes an audit a little more bearable. And, a system clearly makes it easier to defend your claims. Further, systematically recording your expenses helps you ensure that you don't miss available deductions.

If you are looking for joint venture opportunities, considering your fellow investor's needs in advance increases your chances of developing successful relationships. Demonstrating that you can provide your co-investors with timely financial information when they must complete their personal, corporate or other tax returns is an advantage. We see too many investors who are incapable of providing annual statements—let's not even discuss quarterly. This prevents timely and accurate filing, which creates red flags with tax authorities and worries co-investors that something "funny" is happening. All in all, a host of reasons for co-investors to look elsewhere.

Additionally, wouldn't it be nice to have regular information available to you to help you monitor your investments? As a co-investor, I certainly appreciate this.

### **What system?**

The majority of advisors suggest that you keep your bookkeeping very simple in the beginning. An electronic spreadsheet such as Excel gives you the tools to track the revenue and expenses of your personally owned properties. I completely agree with this when you intend to acquire a small handful of properties in a personal capacity. But....you still need a system.

What's the right and wrong way to create an accounting system? The biggest mistake is using a system you don't understand. Spending a couple of extra dollars on coloured file folders and a filing cabinet sounds simple, but goes a long way to keeping organized and finding information.

Predominantly systems are based either on filing your paperwork related to paid invoices by date (often by month) or by vendor. Certain information, such as leases, are filed by tenant. Other information, such as appliance manuals and mortgage documentation are filed by property. When you own properties in a corporation, for example, materials such as articles of incorporation are filed by company.



A critical part of any system is to accumulate the paperwork that you must deal with on a regular basis, such as unpaid bills, in a separate temporary folder and monitor this folder weekly. Once dealt with, you can file this paperwork permanently.

### **When do you begin using an electronic accounting software package?**



Really, this question should be “would you prefer to learn and implement a new accounting system after you own several properties and are overwhelmed or when you have a small handful and have some time to work out the kinks?”

While an electronic system may be overkill at first, your frustration levels dramatically decrease when you can master a system while your operations are relatively small and less demanding.

Using computer generated cheques can help keep you organized and reduce errors. We recommend using the three-part cheques available at various banks and accounting software providers. These cheques are on a standard-sized piece of paper, with the top third of the sheet as the cheque. The second third is a stub which you can leave attached to the cheque and provides details to the person receiving the cheque about what is being paid (particularly useful when you pay multiple invoices with one cheque). The last third of the cheque is for your accounting records. You can staple it to the invoice(s) the cheque is paying. Then you can quickly identify when and how particular invoices were paid when searching backwards from your invoices (think of an audit scenario or questions from a vendor). And, you can quickly scan a folder of invoices to ensure that you are up-to-date on your payments.

### **Chart of accounts**

Whether paper-based, accounting software, or spreadsheet, you want to categorize your cash outlays. We suggest keeping things relatively simple to start off by using a chart of accounts which includes items such as rental income, property taxes, interest expense, repairs and maintenance, and utilities.

When you want more details, you can divide utilities into gas, water, electric, etc. Similarly, you can break other accounts into sub-accounts. But don't get too carried away. Breaking down the accounts too much means that you spend more time trying to categorize expenditures than tracking them.

### **Timing**

Completing your bookkeeping throughout the year is much easier than sorting through 12 months of paperwork just before your tax deadlines. Many procrastinators underestimate the time it takes and can't find the information that they need.

And, if you need help deciding on a bookkeeping system, don't be afraid to ask for it. Having a system in place means you can keep the paperwork monster safely away from your investment properties.

**If you are in need for assistance in your real estate bookkeeping visit [www.accountantinabox.ca](http://www.accountantinabox.ca)**

For additional details on this topic, please refer to Tip's 7, 8, 10, 23, 25, 26, 27, and 29 from **81 Financial and Tax Tips for the Canadian Real Estate Investor** and in chapter 12 of **Legal, Tax and Accounting Strategies for the Canadian Real Estate Investor**.

## How can I use a tax calendar to plan my savings?

### 2011 Personal Tax Calendar

This tax calendar is NOT comprehensive but meant to cover more common personal requirements through the year. The calendar specifically excludes all or some of the federal, provincial and territorial commodity and related taxes such as GST/HST, provincial sales taxes and provincial payroll taxes for example. While all efforts are made to ensure the accuracy of the information, we are not responsible for the impact of any errors or differences. Talk with your tax advisor regarding your personal situation.

**Reminder: You and/or your accountant cannot do everything for everyone at the last minute. Plan ahead and highlight the rows in the calendar that are relevant to you or place the dates in your day timer so that they are taken care of through the year.**

Task	Suggested deadline	Hard deadline <sup>1</sup>	Check off when done or mark as not applicable
Resolve to continue or begin staying organized from a tax perspective. <sup>2</sup>	January 1 <sup>st</sup>		
Send letter to employer for reduced standby benefit of employer-provided automobile. <sup>3</sup>	January 2 <sup>nd</sup>	Sometime before February 28 <sup>th</sup>	
Send letter to employer for deferral of stock option benefits of public companies. <sup>4</sup>	January 2 <sup>nd</sup>	January 15 <sup>th</sup>	
Pay interest for prior calendar year on loan from employer to reduce taxable benefits for prior year.	January 15 <sup>th</sup>	January 30 <sup>th</sup>	
Pay interest for prior calendar year or certain loans including low interest loans to prevent income "attribution"	January 15 <sup>th</sup>	January 30 <sup>th</sup>	
Finalize assembly of remuneration and interest details for T4/T5 for yourself/ bookkeeper/ accountant.	January 31 <sup>st</sup>	N/A	
Reimburse employer for company car's prior year operating benefit. <sup>5</sup>	This is an optional step but not likely done.	February 14 <sup>th</sup>	
Prepare and submit T4/T5 slips and summaries.	February 15 <sup>th</sup>	February 28 <sup>th</sup>	

Prepare and submit T5018 summary and related T5018 slips for contract payment reporting system.	February 15 <sup>th</sup>	February 28 <sup>th</sup>	
Make an RRSP contribution for prior calendar year if desired.	February 15 <sup>th</sup> if at all.	Feb 29 <sup>th</sup> (if leap year) or March 1 <sup>st</sup>	
Remit first quarterly personal tax installment where required.	March 12 <sup>th</sup>	March 15 <sup>th</sup>	
Prepare and submit trust tax return (personal and estate returns, or others with December 31 year-ends). This is normally prepared by accountant after receiving your information.	March 15 <sup>th</sup>	March 30 <sup>th</sup> (if leap year) or March 31 <sup>st</sup> (Generally considered March 31 <sup>st</sup> regardless of leap year)	
Prepare and submit T5013 Partnership information returns.	March 15 <sup>th</sup>	March 30 <sup>th</sup> (if leap year) or March 31 <sup>st</sup> (Generally considered March 31 <sup>st</sup> regardless of leap year)	
Prepare and submit NR4 slips and summaries.	March 15 <sup>th</sup>	March 31 <sup>st</sup>	
Finalize assembly of information for personal tax return <sup>6</sup> and deliver to accountant's office where applicable.	March 15 <sup>th</sup> to March 31 <sup>st</sup>	April 10 <sup>th</sup> or 15 <sup>th</sup> for clients of D&A <sup>7</sup>	
Report foreign property disclosures.	April 15 <sup>th</sup>	April 30 <sup>th</sup>	
Pay personal final balance of taxes.	April 28 <sup>th</sup>	April 30 <sup>th</sup>	
Submit personal tax return for non-business owners. <sup>8</sup>	April 15 <sup>th</sup>	April 30 <sup>th</sup>	
Submit GST/HST: final balance due.	April 28 <sup>th</sup>	April 30 <sup>th</sup>	
Submit s. 216 return (non-residents); if a CRA approved approved NR6 was not received your deadline for filing will be later but taxes are still due.	April 15 <sup>th</sup>	April 30 <sup>th</sup>	

Prepare personal tax return for business owners (but taxes owing on April 30 <sup>th</sup> ).	April 15 <sup>th</sup>	June 15 <sup>th</sup>	
Remit second quarterly personal tax installment where required.	June 12 <sup>th</sup>	June 15 <sup>th</sup>	
Submit GST/HST returns for self-employed annual filers (but taxes owing April 30 <sup>th</sup> ).	June 12 <sup>th</sup>	June 15 <sup>th</sup>	
Forward Notice of Assessment or Notice of Reassessment to accountant (to ensure it's correct, and if there's a problem reply/objection deadlines are met).	Within 3 business days of receipt	N/A or various	
Tax planning meeting with your accountant.	June to Aug	N/A	
Remit third quarterly personal tax installment where required.	Sept 12 <sup>th</sup>	Sept 15 <sup>th</sup>	
Have a tax estimate discussion and meeting with your accountant.	Sept to Nov	N/A	
Remit fourth quarterly personal tax installment where required.	Dec 12 <sup>th</sup>	Dec 15 <sup>th</sup>	
Submit NR6 filings (withholdings for non-resident real estate).	October 1 <sup>st</sup>	Dec 31 <sup>st</sup>	
Taxpayers who turn 71 during the year can make final RRSP contribution and must convert RRSP to RRIF or life annuities.	Dec 15 <sup>th</sup>	Dec 31 <sup>st</sup>	
Letter to employer to have automobile operating benefit determined as 50% of standby charge for company provided vehicle (where advantageous).	Dec 15 <sup>th</sup>	Dec 31 <sup>st</sup>	
Crystallize any capital gains or losses desired for the year when appropriate.	Dec 15 <sup>th</sup>	Trade settlement dates must be prior to January 1 <sup>st</sup>	

### **Footnotes**

<sup>1</sup>For most deadlines the information must be received by the government on that date as compared to having a post mark on that date. Personal tax returns for example can be post marked on the deadline. When in doubt, ensure it is received by the deadline date.

<sup>2</sup>Much easier than typical exercising/eating/drinking resolutions.

<sup>3</sup>Quebec employees must provide car logs to employers not later than January 10<sup>th</sup> and potentially earlier.

<sup>4</sup>Information needs to be reported prior to your employer completing your T4 slip and submitting the same to the government. Your employer will need to know the total personal km's you drove during the prior calendar year to see if you qualify for reduced taxable benefit.

<sup>5</sup>Typically this won't be a desirable as the after tax cost of reimbursement is higher than the tax cost of receipt. Instead, send George and Jacqueline a valentine for the 14<sup>th</sup>.

<sup>6</sup>Remember to get a form T2200 "Declaration of Conditions of Employment" from your employer where you will be deducting expenses related to your employment.

<sup>7</sup>In order to prepare information and deliver for April 30<sup>th</sup>, clients picking up their returns from our office should have their information to us by April 15<sup>th</sup> and others by April 10<sup>th</sup>. After these dates we cannot guarantee the returns will be completed by April 30<sup>th</sup>, although we will try and do this to the degree possible.

<sup>8</sup>Please note that a business refers to a personally owned proprietorship or partnership as compared to owning shares in a corporation as an example. In other words, corporate shareholders will not qualify for the time extension just because they own shares in a company.

### **Corporate tax deadlines**

- Corporate taxes owing are typically due two months after the fiscal year-end of the company although some companies have a three month window.
- Installments may be due monthly.
- Corporate tax return is typically due six months after year-end.
- Corporate bonuses that are accrued for a fiscal period must be paid within 180 days of year-end.

### **Corporate and personal payroll deadlines**

- Payroll remittances are typically due the 15<sup>th</sup> of the month following payment unless you are an accelerated remitter. Where your average monthly remittance is \$15,000 or more (months where there is not a remittance are not included in the calculation, thus someone who only pays a bonus once per year is much more likely to be an accelerated remitter) you may be required to make your withholding payment within three days of payment of the bonus. When in doubt, remit early to avoid penalties and interest.