

YOUR TAXES AND THE ACQUISITION OF A PROPERTY

OR HOW TO TURN YOUR HOME INTO A SHELTER... A TAX SHELTER

Certain buyers are eligible for interesting tax and financial advantages. This is notably the case for people who are buying their first home and are using their RRSP as a down payment and for people who are moving to be closer to their place of work or a school.

THE HBP (HOME BUYER'S PLAN)

In these times of budget cuts, tax shelters are becoming increasingly rare and those that remain seem to be accessible only to the wealthiest among us. Yet, there is a tax shelter all eligible taxpayers can take advantage of: The Home Buyer's Plan (HBP). Introduced in 1992, the HBP was extended indefinitely in February 1994. As regulations can change from year to year, it is good idea to consult the Canada Customs and Revenue Agency.

To take advantage of the HBP, you must qualify as a buyer of a first home and enter into a written agreement to purchase an eligible home: a single-family house, a semidetached house, townhouse, a mobile home, co-ownership, an apartment in a duplex, triplex, quadruplex or in an apartment building.

NO NEED TO WAIT FOR RETIREMENT TO CAPITALIZE ON YOUR RRSP

One can see how profitable it is to have a Registered Retirement Savings Plan (RRSP) when filing an income tax return. Did you know that it can be even more profitable?

Simply use, in whole or in part, the money that is accumulating in this tax shelter to buy a house, finally be at home and make an excellent investment.

WITHDRAW UP TO \$25,000

Thanks to the HBP, each taxpayer can withdraw up to \$25,000 from his/her RRSP without paying taxes. This amount can be used as a down payment on the purchase of a first home. If you buy a home with a spouse, each person can withdraw up to \$25,000 from their respective RRSP.

That is what we call taking double advantage of a tax shelter!

YOU HAVE 15 YEARS TO REIMBURSE THE AMOUNT WITHDRAWN FROM YOUR RRSP

The amount that you withdraw from your RRSP within the HBP program must be reimbursed within a period that does not exceed 15 years. Therefore, each year you must reimburse 1/15th of the total that you have withdrawn.

Every year, the Canada Customs and Revenue Agency will send you a statement of accounts indicating the amount that you have reimbursed, the balance and the amount to be reimbursed the following year.

YOU CAN TAKE ADVANTAGE OF THE HBP EVEN IF YOU DO NOT HAVE AN RRSP

If you are eligible for an RRSP but have never paid into one (or are not taking full advantage), know that it is never too late. The law allows you to make up for lost time. You can place the non-used portion of the contribution you had a right to over the preceding years into an RRSP.

Let us take Jean for example. On the basis of his income, Jean has the right to contribute \$5,000 annually to an RRSP, but has never done so. He would like to buy a home while taking advantage of the HBP. No problem! He can take \$25,000 from his savings (\$5,000 for each of the five preceding years), pay this amount into an RRSP and *take advantage of significant tax reductions*. He will then be able to withdraw \$25,000 from his RRSP, invest in a home and reimburse this amount by paying \$1,666 every year.

If Jean does not have \$25,000 (or a lesser sum) to pay into an RRSP, it would be profitable for him to borrow the money. And for a good reason! The interest on the loan will be greatly compensated by the tax deductions he will be eligible for.



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ELIGIBLE DEDUCTIONS IN CASE OF A MOVE¹

If you are moving to take a job, start a business or take classes as a full-time student, you can generally deduct your moving fees from the income you earn in the new location. You are eligible for these deductions if your new residence brings you at least 40 km closer to your place of work or school.

To determine if your move brings you 40 km closer to your place of work or school, make the following calculations:

- the distance in kilometres between the former home and the new place of work or school,

MINUS

- the distance in kilometres between the new home and the new place of work or school.

The distance of 40 km is calculated according to the shortest normal route that can be taken by the public.

The following people can deduct eligible moving expenses:

- an employee,
- a self-employed person,
- a full-time student.

Here are some of the deductible expenses:

- expenses for moving to your new home (automobile expenses, meals and lodging during the drive),
- transportation and storage costs (such as the cost of packing, moving, temporary storage and insurance),
- meals and temporary lodging near your former or new residence (maximum 15 days),
- lease termination fees for your former home,
- the expenses incurred in selling your former home, including the cost of advertisement, notary or lawyer fees, the commission paid to a real estate broker and the penalty for discharge of mortgage before the due date,
- legal costs related to the purchase of your new home, as well as all of the taxes on the transfer or registration of the property right for the new residence.

IN ADDITION TO TAX ADVANTAGES, ENJOY FINANCIAL BENEFITS

For most people, purchasing a home is the largest investment they will ever make. That is why it is important to take advantage of all of the tax and financial benefits that are offered to buyers.

Buyers can take advantage of the promotions offered by financial institutions to attract the business of mortgage borrowers. Some offer a reduction in interest rates while others offer their new clients money back. Mortgage finders have in-depth knowledge of the programs offered by ALL of the financial institutions and will be able to find the one that is the most profitable for you.

In conclusion, at Via Capitale, we make sure that you are able to benefit fully from all of the tax advantages and financial benefits you are eligible for to become a property owner and to make the purchase of your home cost-effective.

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¹ T1- Moving Expenses Deduction Form from the Canada Customs and Revenue Agency
Source: <http://www.adrc.gc.ca>

