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Food for Thought

Power is of two kinds: one is obtained by the fear of punishment and the other by acts of love.

-Mahatma Gandhi

REAL ESTATE SMARTS

Million Dollar Question: *“What are the TAX ADVANTAGES TO INVESTING IN REAL ESTATE?”*

The real estate values in Winnipeg have been steadily going up over the last ten years. People are viewing real estate favourably as an investment vehicle. The tax advantages of investing in real estate are outlined by DOUGLAS GRAY, in his book “ Making Money in Real Estate” as follows:

There are numerous types of tax advantages to investing in real estate, whether you have a principal residence or investment income property. It would be hard to find another investment that has as many benefits as real estate. For example, all the interest you receive from your bank account, term deposit, or guaranteed investment certificate (GIC) is fully taxable as income. So, if you are obtaining interest of 6% (the nominal rate) on your deposit, and the inflation rate is 4%, the ~~effective~~ ~~real~~ rate of return is 2%. If you are paying income tax at a 35% rate (2% based on the 6% nominal rate), then effectively you have a zero, or possibly negative, rate of return on your money. In practical terms, taking inflation and taxes into account, you have lost on your investment in bank deposits. Real Estate does not have this problem, so wisely investing in real estate . starting with a principal residence . is clearly an attractive form of investment.

Some of the key tax advantages of real estate investment include the following:

tax – free capital gain on your principal residence

ability to write off principal residence suite rental income against your home expenses

ability to write off a portion of a home-based business income against your home expenses (the home based business could even be to manage your residential investment income)

reduced tax rate of 50% of capital gain from investment in real estate

flow through of losses from negative cash flow against other sources of income

deduction of real estate property investment expenses against income

write – off of depreciation of the building against income

To take advantage of the Tax benefits as they apply to your situation, I recommend that you consult your tax consultant.

ESSENCE OF SERVICE REALTY

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