



REAL ESTATE NEWS



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FOUR TAX MISTAKES COTTAGE OWNERS SHOULD AVOID

If you own a cottage, or are thinking of buying one, be mindful of the following cottage-owner mistakes that can cost you big tax dollars if you're not careful.

1. Failing to track capital improvements.

At some point, you're going to dispose of your cottage – either by transferring ownership, selling it or by dying. When it comes time to calculate your tax bill on a disposition, it's going to be important to understand your correct adjusted cost base (ACB). You see, the higher your ACB, the lower the taxable capital gain you'll have to report. Your ACB should include the original cost amount of the property, plus capital improvements you make over time. So, be sure to track the amount of those improvements. It'll save you tax later.

2. Claiming capital losses related to the cottage.

If your cottage is like most, it will be considered a "personal use property" under our tax law. This means that any loss on the sale of the property cannot be claimed. Similarly, if you suffer losses because your cottage is destroyed by a fire or a flood, for example, the loss can't be claimed if the property is for personal use. If the cottage is primarily a rental property, and not a personal-use property, it may be possible to claim a capital loss in these cases. But don't be quick to rent the place out most of the time; this could jeopardize use of the principal-residence exemption if the place does appreciate in value and you want to shelter the gain from tax.



3. Changing use of the property to income-producing.

If you change the use of your cottage from personal use to primarily income-producing, you'll be deemed to have sold the property on the date of the change in use, and to have reacquired it on that same day. This could trigger a tax liability if the cottage has appreciated in value. You might still choose to make this change in use, but beware that you should plan for a potential tax bill.

4. Selling to the kids for less than fair market value.

Suppose your property is worth \$500,000 but you sell it to your kids for, say, \$200,000. You'll be deemed to have sold it for fair market value, so you'll face tax as though you've collected \$500,000.

Your kids, on the other hand, will only be entitled to an ACB of \$200,000 – the price they paid for the property. So, if your kids sell the property later for, say, \$600,000, they could face tax on the difference between \$600,000 and the ACB of \$200,000. But you've already paid tax on up to \$500,000 of value. As a family, you will have paid tax twice on the same value. This is a double-tax problem. A better solution is to sell it to the kids for full fair market value and take back cash for part of the selling price and a promissory note for the balance. You don't ever have to collect on the note if you don't want. You can forgive the note on death with no tax consequences. Your kids will now have an ACB for the full \$500,000 in this example.

MARCH RESALE MARKET SPRINGS INTO ACTION

Members of the Ottawa Real Estate Board (OREB) sold 1,166 residential properties in March 2016 compared with 1,200 in March 2015, an decrease of 2.8 percent. There were 911 home sales in February 2015.

"We are definitely seeing a resale market increase from the previous month, with 256 more properties sold in March over February," said OREB's President. "Properties are starting to sell faster, indicating that we are heading into our busy spring market".

March's sales included 221 in the condominium property class, and 945 in the residential property class. The average sale price of a residential-class property sold in March in the Ottawa area was \$394,951 an increase of 2.0 percent over March 2015. The average sale price for a condominium-class property was \$258,714, an increase of 2.4 percent over March 2015.

"In March, 3,203 homes were listed, up 38.6 percent since February, and inventory on hand at the end of March also rose by 17.5 percent from last month," said OREB's President. "Although there is a slight dip in units sold compared to last year, average price remains steady keeping the Ottawa resale market healthy and strong. Canada's capital continues to be a great place to buy and sell real estate."

"The hottest segments in our market continues to be in the \$300,000 to \$400,000 price range, followed by the \$200,000 to \$300,000 price range," said OREB's President. "Residential two-storey and bungalow homes, and one level condo properties have the highest concentration of buyers in March".

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ONTARIO PLANNING TO IMPLEMENT LEGISLATION TO REGULATE HOME INSPECTORS



Alyssa Hanson thought she had done her due diligence on the home inspection front.

Hanson brought in three professionals -- a home inspector, a septic tank inspector and a specialist to take a look at the fireplace and the wood stove -- before she and her family purchased their dream home, a 2,000 square foot house with a view of the Rideau River in the southern part of Ottawa.

A month after they had moved in, water started seeping into the basement.

Hanson says at least six contractors have come by to survey the damage.

"Every single one of them said, 'How did your house inspector not catch the fact that there is water in the basement?'" Hanson recalled in an interview.

"Obviously the house inspector can't open up a wall and look, but there is a spot where it was unfinished, and it was very obvious to everyone that came in that there was water coming in, in that unfinished area."

Rusted support beams and rotting carpet tacking should have made it evident that the problem had existed for years, says Hanson.

The leaky foundation will cost Hanson \$12,000 to repair -- a hefty price tag after pouring all of her savings into the downpayment.

Consumers rely on home inspectors to help them vet what is often the largest purchase and investment of their lives. If an inspector fails to spot an issue, that can leave the homeowner on the hook for thousands of dollars' worth of unexpected costs.

Yet in most Canadian provinces and territories, including Ontario, anyone can call themselves a home inspector -- regardless of whether or not they have completed any sort of professional training.

That may soon change in Ontario, anyway. The provincial government says it plans to introduce legislation aimed at regulating the home inspection industry sometime this year.

Ontario first started discussing plans to license home inspectors back in 2013, when it assembled a panel of industry experts to draft a report on the topic.

The panel made a number of recommendations, including that

inspectors be required to pass a written exam and a field test in order to become licensed. The panel also recommended having a single, clearly defined standard for all home inspections.

"There is a very significant risk that a consumer can hire a home inspector who does not have adequate education, training or experience to do the job properly," says Graham Clarke, a member of the panel and the president of the Canadian Association of Home and Property Inspectors.

"In the absence of any regulation, anybody can sound like they are eminently qualified to do the job, and they very often aren't."

Currently, the only provinces that regulate home inspectors are British Columbia and Alberta, although both are contemplating changes to their regimes.

The B.C. government says it plans to introduce a more rigorous licensing system for inspectors in 2017, as well as implementing a standard of practice that all inspections must adhere to.

Under the current regime, home inspectors can obtain a license by becoming accredited through one of several industry associations, and the educational standards they must meet to obtain that accreditation can vary from one association to the next.

"The certification requirements are pretty wide and variable," says Claude Lawrenson, president and chair of the National Home Inspector Certification Council.

The inspection itself can also vary -- from what aspects of the home are included to what methods the inspector uses to examine them.

Last month the CSA Group, a Canadian not-for-profit standards organization, published Canada's first national standard on how home inspections should be conducted.

Ontario, Alberta and B.C. all helped fund the creation of the standard. The three provinces say they are currently in the process of reviewing the document and deciding whether or not to incorporate it into their regulations.

- Alexandra Posadzki, The Canadian Press