Home Ownership Can Be Less Taxing Than You Think

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Front lawns across Canada are sprouting For Sale signs. That this annual phenomena occurs at about the same time as the tax refund season may be purely coincidental. Understanding the financial incentives for home ownership available in the Income Tax Act may save you thousands when buying a home.

Home Buyer's Tax Credit: First introduced in 2009, this program provides first-time home buyers with a credit based on $5,000 of home purchasing expenses. The credit is calculated by multiplying the $5,000 by the lowest marginal federal tax rate of 15% which equates to $750 in your pocket. Although this provision targets first-time? homebuyers, you may qualify for the credit even if you have previously owned a home, as long as you have not owned one for at least four years. The credit is available to anyone with a disability at anytime as long as the new home provides an enhanced living environment for caring for the disability.

Home Buyers' Plan (HBP): The HBP allows first-time homebuyers to withdraw up to $25,000 each from their RRSPs without incurring tax. Treated as a tax-free loan, you must repay the funds to your RRSP within 15 years. If you miss a payment, you will be taxed on that portion of the withdrawal. Don't forget to specify the portion of your RRSP contribution that is for the HBP on your tax return.

Property tax refund: Depending on province of residence, you may be eligible for a tax refund or a tax credit for property taxes paid during the year. For example, Ontario offers a refundable tax credit of up to $250 for low to moderate income homeowners.

Mortgage interest deduction: Unlike the United States, your mortgage interest is not tax deductible in Canada. However, an increasing number of Canadian homeowners are taking advantage of the tax deductions available on investment debt by converting their mortgages into investment loans. It's a rather convoluted strategy that must be carefully considered in light of your overall financial situation and risk tolerance. Always consult a financial and tax professional when considering such strategies.

Home office expense deductions: If you operate a business out of your home, you may be able to deduct a portion of your housing expenses. Among several criteria for determining deductibility of your home office is that the space used for business must not be used for personal living needs.

Principal Residence Exemption (PRE): Perhaps the biggest tax incentive provided homeowners, the PRE exempts capital gains earned on the sale of a principal residence from taxes. The residence can be either your primary residence or a vacation home as long as they are both 'inhabited' some time throughout the year. Careful consideration should be given as to which property to apply it to, to ensure you receive the maximum benefit.

Homeownership has never provided more tax breaks than it does right now. There's something for everybody, so it is important to understand the provisions that could benefit you.

Questions about tax planning?

Contact our office! [1]

of that risk is a determination to be made by each purchaser and will vary depending on the circumstances of the purchaser and the securities purchased. Discuss the risks associated with leveraged purchases with a financial planner before investing. Purchases are subject to suitability requirements. Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same if the value of the securities purchased declines.

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