Do you have a solid financial plan for your real estate business?

Top ten financial management tips for real estate in 2017

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Real estate has been one of the hottest investment vehicles across Canada in recent years, and 2017 is shaping up to be no different. To make sure your real estate business provides the returns you're looking for, it's important to stay ahead of the curve when it comes to managing CRA tax rules and other planning strategies.

Whether you've been in the real estate industry for years, or you're just starting out, you'll benefit from keeping these top 10 tips in mind for 2017.

1 New tax rules that became effective in 2016 mean the small business deduction is limited in a corporate group – but there are some tax planning techniques to minimize these consequences.

2 A joint venture that is required to collect HST needs to follow certain HST rules which the CRA began enforcing in 2015. If you don't comply, the CRA may deny your HST input tax credits, negatively impacting your bottom line.

3 Do you need to access corporate funds that have accumulated in your corporation? There are some efficient ways of accomplishing this that can significantly minimize income taxes.

4 Are you working with a partner on buying real estate? There are different structures available to suit your needs, which can have significantly different tax consequences, so you need to choose wisely.

5 Corporations that collect rental income are very often paying an income tax rate of more than 50 percent – but you may be able to take advantage of tax structures to significantly reduce it.

6 Selling a commercial property isn't the same as selling a residential one which may be HST exempt. HST generally must be charged on the sale of a commercial property, increasing the cost to the buyer. You can potentially avoid this issue with proper planning.

7 Are you thinking of transitioning your business to the next generation? With proper planning, you can avoid significant income tax consequences on the transfer. In addition, the benefits of developing a succession plan include:

- preparing for a potential public listing of the company,
- ensuring continuance of the business after death,
- estate planning, and
- strengthening the skills of the management team through collective idea processing.

8 Selling real estate can result in significant income taxes payable – the good news is that by planning in advance and creating the right structure for your holdings or operations, you can reduce or defer income taxes.

9 The principal residence exemption does not apply to individuals who buy, renovate and sell old homes. CRA is increasing enforcement in this area. Individuals involved in this type of activity need to report this income or risk paying penalties to CRA and reducing profits. Creating the right tax structure can minimize the income tax implications.

10 If you own real estate through a corporation in the US, you should know the US does not provide a reduced capital gains rate to corporations. Also, the US allows maximum depreciation to be used to reduce taxable income to a loss. In order to match up foreign tax credits, consider strategies to decelerate US depreciation.

Zeifmans' real estate practice advisors help real estate owners and managers make well-informed investment decisions, and meet compliance obligations promptly so they can keep their energies focused on opportunity and growth. We have the hands-on experience and extensive knowledge to effectively address the complex issues facing Canadians in the real estate industry.

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