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Preparing for a Real Estate Sale

Pembroke Private Wealth Management Ltd.

Speakers: Fiona Tan and Stephanie Pantaleo

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Speakers

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Pembroke Management Ltd.

To be read in conjunction with the disclosure & disclaimer statement.

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Homeownership in Canada

With weakness in housing supply, affordability challenges will continue.

– Canada Mortgage and Housing Corporation, Housing Market Outlook Spring 2024

Households and businesses should also continue to be proactive, planning for higher payments when mortgages and other debt renew at higher interest rates.

– Bank of Canada, Financial Stability Report 2024

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Table of Contents

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Upsizing the Family Home

Reassess your financial circumstances

Mortgages account for approximately 75% of household debt.

Source: Statistics Canada.

Ensure that you have the **financial capacity**.

- Revisit your household's budget
- Account for upfront costs and higher level of recurring annual expenses to maintain a larger home
- Prepare for an increase in mortgage payments

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Upsizing the Family Home

Sourcing funds

Unlike a first-time homebuyer, you may not have access to funds held inside an RRSP (Home Buyers' Plan) or FHSA.

The typical options available are:

- Cash in the bank
- Funds inside a TFSA or taxable account
- Home equity from your current home

The timing of this matters! Ensure the funds you need are **secure** and **easily accessible**. You may require additional funds to bridge any gap between closing dates.

To be read in conjunction with the disclosure & disclaimer statement.

Tax Considerations

Sale of your principal residence

- The **principal residence exemption** ("PRE") may be claimed by a taxpayer to reduce or eliminate any gain that results on the disposition of their principal residence
- To qualify for the PRE, the property must be:
  - A housing unit
  - Owned by the taxpayer (can be held jointly with another person); and
  - Designated on the taxpayer's return in the year of disposition

- Only one PRE designation <u>per</u> year <u>per</u> family unit (couple and minor children)
- For each year of the designation:
  - The owner must be a resident of Canada for all or part of the year, and
  - The property must be *ordinarily inhabited* by the taxpayer, his/her spouse or common-law partner or child
- Designation must be reported in the taxpayer's return and form T2091 must be filed

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Tax Considerations

Sale of multiple properties

- More than one property that qualifies for the **principal residence exemption** ("PRE")?

- Sale of principal residence and/or a sale of an **investment property** to fund new home purchase
- The PRE is <u>not</u> available to shelter the gain on sale of an investment property
    - Capital gain is taxable; capital loss on depreciable property is disallowed
    - Recapture of previously claimed capital cost allowance (depreciation for tax purposes)
- Segregate respective values and cost base between land versus building for disposition purposes

- Federal Budget 2024 proposes to increase the capital gain inclusion rate from 50.0% to 66.7% in excess of gains of $250,000

- While not a market sale, where there is a **change in use** of a property (income producing to principal residence or visa versa) a taxpayer should be aware of the tax consequences
    - Results in a deemed disposition; special elections can be filed to defer the disposition

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Downsizing the Family Home

Reassess your financial circumstances

Upon retirement, on average 50% of an individual's net worth is real estate.

Source: FP Canada.

By selling your property, you can unlock the home equity value which can provide **greater financial flexibility**.

- Debt repayment
- Lower recurring annual expenses to maintain a smaller home
- Net sale proceeds available for reinvestment

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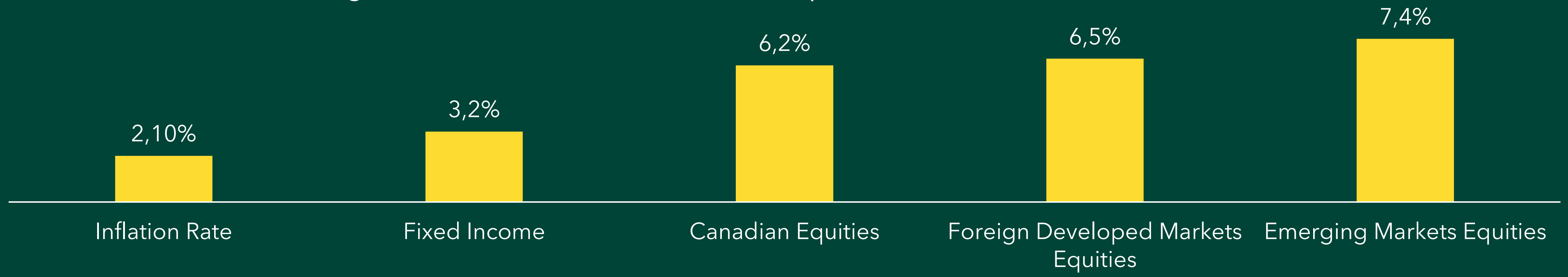
Downsizing the Family Home

Deploying funds

It’s important to consider your investing goals and tolerance for risk, so that the net sale proceeds from your home can be invested appropriately.

Long-Term Annualized Return Assumptions For Different Asset Classes



Source: FP Canada. These assumptions are intended as a guide and are appropriate for making realistic long-term (10+ years) financial projections. These Guidelines were established using a variety of reliable and publicly available sources, including the actuarial reports for the Quebec Pension Plan and Canada Pension Plan. They do not represent the individual opinion of Pembroke.

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Tax Considerations

Sale and partial change in use

- Downsizing results in an ordinary disposition; may be eligible for the principal residence exemption

- Instead of selling the home outright, may begin to use part of a principal residence to earn income
    - Partial deemed disposition of the property may be reported
- It is the CRA's administrative position to not apply this deemed disposition rule and consider that the *entire* property retains its nature as a principal residence where:
    1. The income producing use is ancillary to the main use of the property as a residence;
    2. No structural changes have been made to the property to accommodate the income venture; and
    3. No capital cost allowance (depreciation for tax purposes) is claimed on the property

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Cottage and Vacation Properties

Sales, gifts and estate planning considerations

- Many families enjoy all seasons at cottages or ski chalets, or even own properties outside of Canada
- One or more vacation properties certainly adds a bit more complexity to one’s affairs
    - Owning properties in addition to your principal residence will be a critical piece of your estate plan

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Tax Considerations

Sale of the family cottage or vacation property

- **Principal residence exemption** ("PRE") may be available on the sale of the cottage or vacation property
  - Recall qualifications for the sale of principal residence eligible for the PRE, in particular:
    - What it means to *ordinarily inhabit* the property
    - One principal residence per year per family unit → estimate capital gain per year for each property owned

- For properties located outside of Canada, foreign taxes may be triggered
  - Special reporting, withholding and filing obligations may be required in the foreign country
  - Sale of properties located outside of Canada may still qualify for the PRE

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Estate Planning Considerations

Gifts and transfers of real estate

- **Gifts** to family members, other than to a spouse or common-law partner, will be transacted at fair market value which may give rise to a capital gain
  - Gift of principal residence versus investment property
  - Best practice to obtain a proper valuation for the property

- Be cautious of **transfers** of (partial) ownership for consideration to family members, including transfers to spouse or common-law partner, to ensure adverse tax consequences do not apply to future income (in the case of investment properties) or capital gain

- Undertaking more complex estate plans, for example, transfer of a property to a corporation or trust will involve special tax planning expertise
  - Added complexity for foreign properties

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Estate Planning Considerations

Gifts and transfers of real estate

- Tax is one of many considerations for planning and executing an effective estate plan

- Must consider your beneficiaries and future management of the property
    - Annual expenses, maintenance and future upkeep
    - Family harmony
    - Governance
    - Consideration for future sale?

- Considering donating real property?
    - A donor advised fund at Canada Gives may help facilitate

To be read in conjunction with the disclosure & disclaimer statement.

Thank you for joining us!

Next Virtual Event: June 18 at 4:00 PM (ET)

Round Table Discussion with the Investment Team

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