

## Home ownership: Headaches – and tax breaks

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Some people have the worst kind of luck. I think about my friend Janice. She bought a home seven years ago and has had nothing but mishaps since.

In 2003, she had a flood and ended up with a foot of water in her finished basement. In 2005, lightning struck a huge tree in her yard, part of which fell onto her car in the driveway. Then, last week, a driver lost control of his car in front of her home, drove across her lawn and knocked over her fence.

"I'm just about to give up on home ownership, Tim," she told me this week. "This house has always given me headaches."

"Well, I know a guy who is a feng shui specialist," I replied. "For a few bucks maybe he'll fix the problem."

The fact is, home ownership can be the best investment you'll ever make – despite the regular headaches. If you're in the market to buy a home, think about a few tax tips that could save you a bundle in taxes.

**1. Principal residence exemption.** You're likely aware that selling a home can be a tax-free event. The reason? Each "family unit" is entitled to designate one property as their principal residence. A family unit consists of you, your spouse or common-law partner, and any unmarried children under age 18. You have to ordinarily inhabit a place to call it your principal residence, but you'll be entitled to an exemption to shelter any capital gains on a sale of your principal residence later. If you own more than one property, speak to a tax pro about the exemption because the rules can be complex.

**2. Home Buyers' Plan (HBP).** The HBP will allow you to borrow, tax-free, up to \$25,000 from your registered retirement savings plan (RRSP) for the purpose of buying or building a home. You must be a first-time home buyer, which will be the case if you or your spouse (or common-law partner) haven't owned a home that you occupied as a principal residence in the year of the RRSP withdrawal or the preceding four years. You generally must repay the amount back to your RRSP over a 15-year period. Be aware that I've simplified the rules here. Check out Canada Revenue Agency's publication RC4135, available at [cra.gc.ca](http://cra.gc.ca), for more.

**3. First-Time Home Buyers' Tax Credit.** The 2009 federal budget introduced a new tax credit for first-time home buyers. If you buy a home and you and your spouse (or common-law partner) haven't owned a principal residence that you occupied in the year of your purchase or the preceding four years, then you may be entitled to a tax credit worth up to \$5,000, multiplied by 15 per cent (the applicable percentage for 2010), or \$750. The credit can be claimed by either spouse, or both, as long as the total doesn't exceed the allowable \$750.

**4. Deducting expenses.** You may be entitled to claim a deduction for a portion of home costs such as mortgage interest, property taxes, utilities, repairs, landscaping, and more. How? Two ways. First, think about establishing a home-based business and a home office which is your principal place of business, or is used on a regular and continuous basis for meeting clients. If this doesn't suit your fancy, then consider renting out part of your residence to a tenant. Your property will still be considered your principal residence even when you use it to earn income (from rents, or a business) as long as the partial use of the place for income-producing purposes is ancillary to the main use as your principal residence, you don't make any structural change to the property, and you don't claim capital cost allowance (CCA) on the property. Finally, don't forget to claim moving expenses if you make a qualifying move to a new residence.

**5. Multiplying exemptions.** It may be possible to shelter the capital gains on more than one principal residence. How so? Prior to 1982, each individual was able to designate their own property as a principal residence. For properties owned prior to 1982, it may still be possible to shelter, at least in part, a gain on more than one property. This generally involves putting each property into separate names rather than holding them jointly. The rules are complex enough to make your head spin, so speak to a tax pro for more details.

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