

From the author of the bestselling
REAL ESTATE INVESTING IN CANADA

81 FINANCIAL AND TAX TIPS FOR THE *CANADIAN* REAL ESTATE INVESTOR

***Expert Money-Saving Advice on
Accounting and Tax Planning***

D O N R . C A M P B E L L

NAVAZ MURJI CGA

GEORGE E. DUBE MAcc, CA

What Other Canadian Investors Are Saying ...

“Easy to follow, makes sense. If only I knew what I learned 15 years ago! Wow! The best time to have this was 15 years ago; the second best time is now.”

—Ray Paiement

“In this stormy age of corporate greed, shady mismanagement and out-of-control egos, Don Campbell has forged a reputation as a man of integrity, with solid unwavering values and a vision to help people who want to create financial success.”

—Les Hewitt, co-author of the best selling series *The Power of Focus*

“Amazing and informative. It gave me a clearer understanding and restructure of my previous knowledge of investment properties.”

—Gloria Lee

“If you want a predictable real estate future, you must design it in advance. I know of no other real estate expert and educator who is as competent as Don Campbell. His research is unmatched and his results predictable.”

—Gordon D. Wusyk, Founder and CEO of Predictable Futures Inc.

“I have owned real estate for many years; I now have a system that will allow me to build a portfolio that is stronger and better, and I am better equipped to manage it far better.”

—Michael Derocher

“Very well designed and thoroughly covered all aspects of the ‘business of real estate investment.’ The system has motivated me to work more focused and targeted in real estate investment, using the insights I discovered.”

—Rasheed Walizada

“Can be used immediately. Excellent real-world practical solutions. Very informative, but still forces you to commit to your own research. Great job!”

—Wei-Kun Chung

“Simple enough to follow for a mom with two crazy toddlers. The chaos can stay at the playground because I now have a system and plan that doesn’t require chaos.”

—Samantha Lane

“Very informative, and gives me the confidence to pursue this as a business as everything is step-by-step and well-explained. As a novice investor, this goes a long way in building the confidence required to go ahead.”

—Dan Herard

“Easy to follow, codified common sense. The senior tips were fantastic and showed real value. I was looking for a system to use as a framework for my vision and I got it!”

—Sarah Ivey

“All Canadian, extremely well-organized. Learned so much — wish I had known this a long time ago. Has given me structured information so I can get started immediately. One of the most informative pieces of information has been the suggestion to specialize geographically; I had been thinking ‘all over the place.’”

—Sandra Tong

“If you are even considering real estate as part of your portfolio, you would be skipping a major part of your due diligence if you did not review the REIN system.”

—Claudio Gambetti

“Wish I had joined REIN three years ago when I read the book.”

—Peter Rollings

“Outstanding! Your life is a reflection of the expectation of your peer group. Make REIN your peer group and your support system and you will soon see yourself as a professional real estate investor with your own portfolio sharing your own success story and helping others. REIN offers at least 100 times more than what you would normally get for the price.”

—Marek Soltys

***81 FINANCIAL AND
TAX TIPS FOR THE
CANADIAN REAL
ESTATE INVESTOR***

Also by Don R. Campbell

*Real Estate Investing in Canada: Creating Wealth with the ACRE System,
2nd Edition*

Also by Don R. Campbell with Barry McGuire, Peter Kinch, and
Russell Westcott

97 Tips for Canadian Real Estate Investors

51 Success Stories from Canadian Real Estate Investors

81 FINANCIAL AND TAX TIPS FOR THE CANADIAN REAL ESTATE INVESTOR

***EXPERT MONEY-SAVING ADVICE ON
ACCOUNTING AND TAX PLANNING***

DON R. CAMPBELL

PRESIDENT OF THE REAL ESTATE INVESTMENT NETWORK

NAVAZ MURJI, CGA | GEORGE E. DUBE, MAcc, CA



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TABLE OF CONTENTS

Introduction	ix
Part 1: Get Help!	
Quality Information Is the Fastest Way to Increase Your FM IQ!	1
Part 2: When There Is More Than One Answer . . .	
Real Estate Investing Is Complicated. Avoid Common Pitfalls.	27
Part 3: For the Record:	
Your New Business Mantra: Organize and Delegate. Organize and Delegate.	43
Part 4: Expense Reports:	
Keep It Real (To Keep It Deductible).	73
Part 5: The Facts About Tax:	
How to Put Your Knowledge of Canadian Taxes to Work.	101
Part 6: Let's Get Sophisticated:	
Tax Strategies for the Savvy Investor.	139
Appendices	
<i>Property Goldmine Score Card</i>	177
<i>REIN Property Analyzer Form</i>	178
<i>Canadian Real Estate Glossary</i>	180
Real Estate Investment Network™ – REIN™	201
Web Sites for the Real Estate Investor	203
Acknowledgements	205
About the Authors	207
Index of Financial and Tax Tips	209

100% of the Author Royalties from this book (as well as Don Campbell's other bestsellers, *Real Estate Investing in Canada 2.0*, *97 Tips for Canadian Real Estate Investors 2.0*, *51 Success Stories from Canadian Real Estate Investors*, *Secrets of the Real Estate Cycle*, and *Real Estate Joint Ventures*) are donated directly to Habitat for Humanity to assist those in our society who need a hand up. To date, more than \$830,000 has been raised through these books and the generous assistance of the members of the Real Estate Investment Network for this worthy cause. For more details, please visit the real estate discussion forums at www.myREINspace.com.



100% of the authors' royalties from the sales of this book are donated directly to Habitat for Humanity.

INTRODUCTION

IT'S NOT HOW MUCH YOU MAKE — IT'S HOW MUCH YOU KEEP — THAT MATTERS

This book is unlike any Canadian real estate book ever published. It targets two key areas for investors — financial management and tax — and is ideal for those who want to ensure their real estate investments are profitable by implementing simple tips and strategies to increase profits and lower taxes.

Losing sight of the financial and tax implications of real estate investing is easy to do because people get caught up in the excitement of the buying and selling of property. However, you neglect these fundamentals at your own financial and emotional peril.

What you will learn: How to make more money with your real estate investments, and keep more of that profit in your bank account.

What you will NOT learn: How to take stupid risks, hide your money off shore or trick the Canada Revenue Agency (CRA). The strategies and concepts taught here are not about tax avoidance; they are about profit and tax management. We live in one of the best countries in the world, and paying tax is a cost of living here. The key is to only pay the tax that you need to, not any extra.

THIS KNOWLEDGE IS YOUR RESPONSIBILITY — NOT YOUR ACCOUNTANT'S

Ignorance is never a defense. Over the last 18 years, I have witnessed countless investors blindly abdicate financial responsibility to their accountants and lawyers. We all need these professionals in our lives, since without them, our businesses would be a mess. However, they still work *for* you and *for* your business and that is an important distinction you never want to forget.

What investors must understand is that, at the end of the day, the buck (and all responsibility for the decisions) stops with them. The professionals they have on their team have many, many clients that they are juggling and doing their best to advise on an ongoing basis. These individuals provide investors with options based on their knowledge. However, at the end of the day, it is the investor's job to know why he or she is signing a document (and what that document is) or making a claim to the CRA. And that is why this book is so important for Canadian investors. It is designed to provide you with clear knowledge and strategies you can start using today to get the best return on your investment dollar.

Investors who become complacent about financial and tax aspects of their business will 100% compromise their success. Put this book to good use.

NO THEORY, JUST REAL LIFE

81 Financial and Tax Tips for the Canadian Real Estate Investor has been written for you by veteran accountants who are also experienced property investors. This is a critical fact. Tax and accounting theories are important to know, but often the theories don't work well in real life. In addition, tax court decisions change the rules of the investment game on an almost monthly basis and that is why listening to an accountant who also owns investment real estate is so important. Informed and experienced accounting professionals keep on top of these ongoing changes to take care of their own money, and then transfer that knowledge to their clients' portfolios.

By combining their many years of accounting and real estate investing, the authors of this book ensure that the tips and strategies you are about to discover really do work in the real world and will make a positive difference to your bottom line and increase your financial management IQ (FM IQ).

As we discovered in *Real Estate Investing in Canada 2.0*, every investor is the president and CEO of his or her real estate investment portfolio, no matter what the size of that portfolio might be. That book, along with others in the series, including *97 Tips for Canadian Real Estate Investors 2.0*, taught readers the importance of building a team of professionals that includes real estate agents, mortgage brokers, property inspectors, lawyers and accountants who can give you sound business advice based on real-world experience.

This book will not replace the advice you receive from these professionals. Moreover, it is clearly not “accounting advice.” Instead, it is written to arm you with specific action steps and money-saving tips you can begin using right away. This book is meant for people who like a no-nonsense approach to ideas about how they can make (and save!) money while investing in Canadian real estate.

Veterans and beginners are urged to read this book with a highlighter and pen handy and to be prepared to have some of your current thinking turned upside down. While it's true that some of the tips may be considered controversial and even counter-intuitive, that's what helps make them so effective. Whether saving you dollars or making you more dollars, it really is all about how much you keep at the end of the day.

So, read this book, implement the tips along with your accountant, and watch your bottom line grow.

Don R. Campbell

President of the Real Estate Investment Network

Author of the bestseller *Real Estate Investing in Canada 2.0*

www.realestateinvestingincanada.com

PART **1**

GET HELP!
QUALITY INFORMATION
IS THE FASTEST WAY TO
INCREASE YOUR FM IQ!

TIP #1: THE TRUTH ABOUT DEATH AND TAXES.

You can't avoid death. You can't avoid taxes. Now get on with running a profitable business.

It's human nature that when we make money, we want to keep it. For some that involves trying to shelter money from the tax collector. This can be done through intelligent and lawful tax strategies, or through not-so-lawful means. The wise investor knows exactly where to park their business bus: focus on a business that makes money. Paying tax comes with the territory, and the more you pay, the more you have made.

Parts 5 and 6 of this book will guide the reader through the Canadian tax system. In the meantime, it's good to remind ourselves that taxes are a fact of life in Canada, where three levels of government collect taxes. The federal government collects taxes via income tax based on your income, personal and corporate sales taxes (HST, GST, alcohol, fuel, cigarettes, etc.), corporate capital taxes (based on your assets, not income), and various fees such as EI, CPP, licensing, royalties and more.

Provincial governments collect income taxes that generally blend in your federal income taxes, sales taxes (except Alberta), corporate capital taxes (based on assets or liabilities) and various fees such as royalties and licensing. Alberta has some components of tax that are independent of the federal government, and Quebec collects its own taxes.

Municipal governments generally collect property taxes, business taxes, builders' fees and licensing fees. There is very little connection between municipal government and your income taxes paid to the other two levels of government.



KEY INSIGHT

Governments do not have money. All of their money comes from some form of taxation. Individuals and businesses essentially act as government "trustees" in that they pay the costs associated with collecting taxes and then remit the money to the government. A good trustee knows the rules!

SOPHISTICATED INVESTOR TIP

You are in business to make money

The majority of taxes are pro-rated based on the amount of income generated. Sophisticated real estate investors recognize there are two ways to make money: you can trade time for dollars through employment or running a business, or you can learn to make your money work for you and reap the benefit of passive income. *Real Estate Investing in Canada 2.0* shows readers how they can transition from paid employment to full-time investing, or incorporate a part-time approach that's respectful of the individual investor's tolerance for risk.

Regardless of where you are on that spectrum, always remember that you are in business to make money. As an investor, this means you must assess the risk and take investment action when warranted. Investment decisions should be viewed over a long period of time (10-to-20-years minimum) and should never be focused on schemes that aim to avoid taxes. The real purpose of investment income is to get rich, slowly. This approach takes all of the "excitement" out of investing because it focuses on using tried-and-true investing approaches.

For a refresher on the fundamentals of a tried-and-true investing approach, review Appendix 1. The information gleaned from the Property Goldmine Score Card is essential to risk management in a sophisticated real estate investing system.

RED FLAG

When it comes to tax shelters, be aware that investment schemes marketed as "tax shelters" are not all created equal. Generally speaking, where a loss is projected at some point in the first four years of a real estate project's life, the project is a tax shelter for tax purposes. But look behind the curtain. If the investment is not ultimately expected to make money, why are you investing in it?

NOTES: _____

TIP #2: ASSEMBLE YOUR TEAM.

Every decision you make has implications for financial management.

Real Estate Investing in Canada identified relationships as an essential part of real estate investing, with real estate agents, bankers or brokers, lawyers, accountants, property managers, tradespeople and co-venturers or co-investors, all supplying key components of a sophisticated real estate investment business team. So, gather your team, but always remember two important points:

1. You are responsible for every decision made; and
2. Every decision impacts financial management as long as it has the potential to affect profitability and the cost of doing business.

KEY INSIGHT

Empower your team. Once you develop your team and the relationships are starting to strengthen, get out of the way! You provide the direction and parameters, but let these key members do what they do best.

[illegible]

TIP #3: HIRE A QUALIFIED ACCOUNTANT

Close and convenient are two of the worst reasons to contact the accountant-next-door!

An accountant with expertise in real estate investment will save you money by providing advice on tax strategies and sound bookkeeping practices. To make sure you're adding the right accountant to your investment team, novice investors need to ask prospective accountants a few questions before they bring them on board. You must determine if the accountant owns or has owned real estate as an investment and has clients who are active investors.

With email, couriers, phone meetings, web meetings, faxes and virtual offices simplifying real-time connections regardless of geography, the location of your accountant's physical office is much less important than his or her experience and availability. Sophisticated investors work with accountants whose client portfolios include a considerable number of active real estate investors. You get people who know what they're doing when you hire people who are already doing it!

NOTES:

TIP #4: GET TO KNOW HOW THE PROCESS OF AN ACCOUNTING PRACTICE WORKS.

Data compilation and the ability to meet deadlines matter, but you also want someone who can help you use that information to plan your professional and personal future.

Accountants charge by the hour or the job, and are deadline driven. As a sophisticated real estate investor, it's your job to look behind the hourly rate and determine if you are getting value for service. To do that, you need to understand that a great deal of an accountant's practice revolves around the compilation of data they need in order to fill out forms for personal taxes, corporate taxes, HST, GST, and so on.

You will want an accountant who is organized and has systems in place that boost efficiency. Most investors who think they can prepare their own data likely don't have systems in place to ensure that they have all the data they need. As you work through this book, you will see why tax preparation is no place for memory games!



KEY INSIGHT

Your accountant must also be able to meet deadlines, including peak-period work when many clients must meet similar deadlines. It's your job to help your accountant meet those deadlines.

WHY DOES IT COST SO MUCH?

If you have questions about your accountant's fees, talk to him about what you can do to lower them. Accountants generally buy time from their staff or themselves and sell it to clients. If information is difficult to gather, you will pay for the time it takes an accountant to pull it together. Provide your accountant with receipts, statements of income, etc., in an organized way and at one time. Be available should your accountant have questions.

Rush jobs are another problem for accountants — and mean a higher bill for clients. When staff rush through jobs to meet deadlines, mistakes are made. A careful accountant will find the errors during review, but they take time to fix!

TIP #5: THERE ARE QUESTIONS YOU *SHOULD* NOT ASK YOUR ACCOUNTANT.

Time is money. So keep your questions relevant and your answers real.

When dealing with your accountant, remember that time is money! Avoid debating issues where the tax savings at stake will save you less than the cost of the discussion and don't ask your accountant's office to send you extra copies of documents you will get as part of your file. (You do not need an extra copy of your tax return, for example.)

Here are some other discussions you should avoid having with your accountant:

1. Never ask your accountant how you can hide a transaction from the Canada Revenue Agency.

Do not ask your accountant hypothetical questions with an illegal implication. Accountants are required to report certain transactions without your knowledge. This includes transactions under laws governing money laundering.

RED FLAG

The biggest argument for not asking how to do illegal transactions is that you risk becoming a “former client.” Your accountant wants to do his job, not play games.

KEY INSIGHT

Novice investors often hear about “grey area shortcuts” early in their investment careers. Someone might suggest you sign a document that’s not true, assuring you it’s a harmless and even necessary strategy. Investors who swim with sharks risk their money and their reputations. Don’t do it!

2. Do not ask your accountant for specific investment advice.

American entrepreneur Warren Buffet is one of the few people who really understands long-term investing — and even he makes some mistakes. Do not expect your accountant to do your due diligence. Your accountant is there to help you with administration set-up, advice or tax

issues. He is not trained to be an investor and most times will hedge on answering such questions for fear of lawsuits.

3. Avoid hypothetical questions.

Novice investors may think it is a good idea to ask their accountant about all of the possibilities that may come with a particular investment or investment strategy. It is far better to focus on what you actually intend to do, while adding a few variables rather than a long list.

4. Expect informed advice, not training.

Your accountant's practice is backed by years of education, training, experience and a commitment to continuous learning. Accountants cannot teach their clients everything they know, although they can teach the basics.

5. Don't expect your accountant to take kindly to questions about the "latest date" you can bring in your documents.

Accountancy firms run on deadlines and you should want to help them do their job well. The closer your documents come in to the deadline, the greater the chance of error or a late filing and penalties.

6. Your accountant cannot guarantee you will not be audited.

The best way to avoid being audited is to report all your income and claim zero expenses. This leaves little for the CRA to challenge. Since expenses are reported in order to reduce income and save tax, this is not a reasonable business practice!

7. Information about what your friends "get away with" is not helpful.

You may know a guy whose accountant lets him write-off a Sea-doo. Be realistic in what you ask your accountant. All that really means is that your friend has not been caught. Similarly, you cannot get too creative with your expenses (laundry, shoes, baby safety items) and expect your accountant to look the other way. This is not a game and your accountant understands how concerns about minor items can attract major attention.

8. But the CRA staff gave you a different answer . . .

CRA staff can be helpful, but they do not necessarily have the information to answer technical questions. The agency is also not bound by "decisions" rendered over the phone.

NOTES: _____

TIP #6: LEARN TO READ FINANCIAL STATEMENTS.

Make it your business to follow the money trail . . .

Financial statements show precisely where money comes and goes in a business. They are meant to be read and understood by the people who are responsible for that money. There are four main components of financial statements:

1. **Balance sheets** show what a business owns and owes at a given point in time. These are your assets, liabilities and shareholders' equity.
2. **Income statements** show how much money a business made and spent over a period of time. Income statements tell you how much revenue the business made in a given year or portion of that year, and what costs were associated with making/losing that money.
3. **Cash flow statements** detail the exchange of money between a business and outside entities over a period of time. An income statement tells you if the business made a profit. A cash flow statement tells you if it generated the cash it needs to pay its expenses and purchase assets.
4. **Statements of shareholders'/partners' equity** show changes in the interests of the business's shareholders over time.

KEY INSIGHT

You are in business to make money. Financial statements allow you to measure performance. Don't just read them, understand them.

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