

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*

**DON R. CAMPBELL**

NAVAZ MURJI CGA

GEORGE E. DUBE MAcc, CA

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# 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 avision 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*

## 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*

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**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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**100% of the authors' royalties** from the sales of this book  
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# 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.

Ignoring 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, the reality is that if you ignore these business fundamentals, you do it 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.

Ignoring these tips has led many a successful investor to the poor house. Too bad they didn't have this book as a reference before they went "off the financial rails," as they could have easily avoided the pain and financial loss.

## **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*, 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*, 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](http://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.*

Way too many novice real estate investors get caught in a trap that links tax-avoidance strategies with business success. A wise investor turns her back on that approach and knows exactly where she wants to park her business bus: Since wealthy people pay large sums of money in taxes and poor people pay very little, you will want to focus on running a business that makes money.

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 (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 with 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* 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?

## **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.

## **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, 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!

## SOPHISTICATED INVESTOR TIP

Accountants begin their tax season in the summer prior to the next year's deadline. This is when they review problems, create new templates and generally tinker with compilation and reporting systems. Take a look at some of the systems accountants have in place to help their clients:

1. The “*one-box*” system. Every client gets “one box” so there’s no time wasted looking for documents.

2. One file per desk. To make sure file data is not compromised, only one file is open at a time.
3. Set priorities. Staff know what is required of them when they start a job. First A. Then B. Then C.
4. *Start and finish.* Complete the file you started. This saves the client money because there's no time lost when staff have to familiarize themselves with the information — again!
5. Procedures. Procedures. Standard documentation procedures are used so the accountants know how the information was obtained.
6. Paperless files. This saves time filing and retrieving papers. (Make sure you have good electronic back-up systems.)
7. *Dual screens.* Dual computer screens reduce errors.

### **KEY INSIGHT**

A well-organized client helps his or her accountant meet deadlines by bringing them well-organized information early.

## **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