Bluenose Accounting
Chartered Professional Accountants

STATEMENT OF REAL ESTATE RENTALS

Net rental income is calculated by subtracting eligible rental expenses from your rental income. The figures are reported on form T776 and attached to your personal tax return. The most common expenses are listed below, though we direct you to the notes on the reverse side for clarification on certain expenses. Where the rental operation is a portion of your home residence, the expenses are pro-rates to determine the amounts that relate to the rental. This pro-ration is usually done on a square footage basis. We would advise never to claim more than half (usually limit to 45% or less) of the home as a home that is used more for income generating purposes no longer qualifies for the tax-free principal residence exemption when sold.

Sold in Year: Y / N (if yes, provide documents) **Purchased in Year: Y / N (if yes, provide documents)**

Address of property ____

Number of Units ____

Area rented (square footage): ____________ Area of entire home (square footage): ________________

Ownership Split: Sole Owner: Y / N Co-owner: Y / N Details: ________________________________

New Clients Only: Please provide full copy of prior statement of real estate rentals (T776)

To prepare for any future sales, please make sure we have purchase documents on file.

Purchase Information (Documents) Attached: Y / N **Was provided previously: Y / N**

Revenue

Gross Rent ____

Expenses

- Advertising ____
- Insurance ____
- Mortgage interest (excludes principal) ____
- Office expenses (note 1) ____
- Legal, accounting, other professional fees ____
- Management and administrative fees ____
- Maintenance and repairs (note 1) ____
- Property taxes ____
- Travel (note 1) ____
- Utilities – Electricity (note 1) ____
- Utilities – Heat (note 1) ____
- Other expenses (i.e. water) ____
- Other expenses (i.e. cable, internet, phone) ____
- Furniture and appliance additions ____

Office

Rental income is not considered active income and thus very few items are deductible as office. However, some examples might include photocopying of lease agreements, postage to mail rental documents and other misc. expenses associated with rental negotiations.

Maintenance and Repairs

There is always a question as to whether an expense is maintenance (deductible) or a capital improvement (not claimable in this case). Routine upkeep, such as repairing a leaky window or repainting damaged walls are examples of repairs. The tax act focuses on betterment and whether the benefit is long-lasting. Where an expense restores to the original condition, it is assumed to be a repair. Where there is a betterment, it is capital. The amount of the expenditure sometimes comes into play though there are no set limits. For example, replacing asphalt shingles with new asphalt shingles is a repair but the amount might be over ten thousand. What is certain is that replacing asphalt with metal is an upgrade and considered capital.
Why is such a determination important? Capital items are not deductible in full in the year incurred but rather depreciated over time. This would be similar to say a computer or a vehicle. However, we never advise individuals who use a portion of their principal residence to claim depreciation. Doing so would deny the tax-free sale of the home on the portion claimed for business use. The minimal tax savings within the corporation would be more than offset by the lost tax savings on the home sale.

If you have any difficulties in determining capital versus maintenance, we would be glad to provide you with some advice. Of course, we would always question unusually high maintenance expenses when preparing your personal return.

Travel

Travel in order to collect rents, supervise or carry out repairs, and to manage properties may be deductible but would generally be limited to automobile expenses. Travel expenses exclude meals and accommodations which are considered personal. All travel should be supported by a log book in case CRA audits the claim.
If you own one property, you may only claim travel if the property is in the general area where you live, you personally do part of the maintenance and you use your vehicle to transport tools. No claim is made to collect rents. If there are multiple rentals, you may also claim travel to collect rents, supervise repairs and to manage properties.

To make a claim, you must track for each vehicle the annual KMs for rental purposes, total annual KMs driven and the annual expense totals for gas, maintenance, lease, insurance, licensing, loan interest. Please request the auto expense form to make this claim.

Utilities

Generally, utilities would include heat (if separated from electricity), electricity, and water. Cable TV, internet and phone are deductible when for the exclusive use by the tenant. Where a portion of a principal residence is rented, home phone would not be an allowable deduction. However, a reasonable portion of home internet and cable TV may be allowable.

Capital cost allowance (CCA)

Capital additions can only be claimed over time as depreciation (CCA) on building, furniture and appliances. Deductions result in modest annual savings but a future sale in a potentially high income year could result in higher tax payments than was otherwise saved. We generally suggest CCA not be claimed on building unless the building has actually gone down in value. We do claim CCA on furniture and appliances but no CCA can be claimed on land.

Upper Tantallon
13589 Peggy's Cove Road
Upper Tantallon, NS B3Z 2J3
tel 902.820.8000

bluenoseaccounting.com

Bedford - Hammonds Plains
201 - 1 Kingswood Drive
Hammonds Plains, NS B4B 0P4
tel 902.835.5000