

Making It Easier To Buy and Renovate a Home

As the economic news from around the globe seems to grow steadily worse, consumers are putting off major purchases and economic activity is declining further — in an ongoing cycle. In the 2009 federal Budget brought down in late January, the government made some changes that it hopes will help to interrupt that cycle and give a nudge to consumer spending in the real estate and construction sectors, both of which are experiencing downturns.

Ironically, it is, in many ways, a very good time to be getting into the real estate market, especially as a first-time buyer. Interest rates, including mortgage rates, are at historic lows. The decline in the economy has generated precipitous drops in real estate prices in what were, less than a year ago, sellers' markets, where those prices had reached record highs. And of course, first-time buyers don't need to worry about selling an existing home in a sluggish real estate market.

Two of the changes announced in the Budget will make that first home purchase easier. The first is a new non-refundable tax credit, to be known as the First-Time Home Buyer's Tax Credit. As the name implies, the credit will be available only to first-time home buyers who purchase a home with a closing date after January 27, 2009. (As long as the deal closes after that date, it doesn't matter that the offer was made and accepted before then.) The credit amount on which the credit is based is \$5,000, meaning that the actual federal tax reduction for the year in which the home is acquired will be \$750. That's not a large amount in the context of the price of a home, but it would go some way toward paying the numerous "closing costs" (i.e., land transfer tax, legal costs, property tax, and utilities adjustments etc.) that often catch first-time home buyers by surprise.

It's important to note that, for the purposes of the credit, a "first-time" home buyer doesn't actually mean someone who has never owned a home. Rather, the budget papers provide that a person will be considered to be a first-time home buyer if neither the person nor the person's spouse (or common-law partner) has owned and lived in a home during the previous five years, including the year of the purchase. So a taxpayer who purchases a home in 2009 will be eligible for the credit as long as neither the taxpayer nor his or her spouse owned a home during the years 2005 to 2009 inclusive.

Finally, it's possible for disabled taxpayers (defined as those who are eligible to claim the federal disability tax credit) to take advantage of the First-Time Home Buyer's Tax Credit, even if they don't meet the definition of a first-time home buyer. Where such a taxpayer (or someone on his or her behalf) acquires a home after January 27, 2009, and that home is acquired in order to allow the disabled taxpayer to live in a home that is either more accessible or more customized to their needs, the First-Time Home Buyer's credit may be claimed.

For anyone contemplating the purchase of a home, it's coming up with the down payment that often represents the biggest stumbling block. Here again, the federal government has proposed changes that may provide some assistance.

For many years, taxpayers have been able to withdraw funds from their registered retirement savings plans to buy or build a home, without having to pay tax on the withdrawal. (Funds withdrawn must be repaid to the RRSP on a fixed schedule over the subsequent 15 years). Under current rules, the maximum withdrawal that can be made for such purposes is \$20,000.

The federal government has proposed that, effective for withdrawals made after January 27, 2009, that limit will be increased to \$25,000. The increased withdrawal limit may be particularly useful in light of the changes announced by the government last July and took effect in October, setting minimum levels on the amount of down payment required where a home mortgage is CMHC insured.

The Budget also contains provisions to assist taxpayers with what sometimes seems to be the great Canadian pastime of renovating one's current home. Homeowners who incur more than \$1,000 in renovation-related costs between January 27, 2009, and February 1, 2010, may claim a 15% non-refundable tax credit on their 2009 tax return. The credit will be available for up to \$9,000 in qualifying renovation costs, meaning that the maximum credit will be \$1,350. Note that even where those costs are incurred in the first month of 2010, the credit is claimed on the taxpayer's 2009 tax return, to be filed in the spring of 2010.

There are, of course, rules and restrictions on what costs will qualify for the credit. Generally, costs incurred for routine repairs and maintenance that are normally carried out at least annually won't qualify. So while the cost of re-sealing the leaky roof won't qualify, the cost of replacing it likely will. As well, expenditures made for appliances or for audio-visual electronics (like a plasma TV) won't qualify for the credit. Finally, any financing costs (i.e., interest) associated with the renovation can't be included in eligible renovation costs for purposes of the credit.

The \$9,000 limit on renovation costs eligible for the new credit is calculated on a family basis, with a family generally considered to consist of an individual, his or her common-law spouse or common-law partner, and their children under the age of 18. Although it is expected that in most cases the credit will be claimed by a single family member, the rules provide that any unused credit can be transferred to and claimed by another member of the family. Finally, the credit may be claimed only on qualifying renovation costs that are incurred in respect of a "principal residence", which would in nearly all cases mean the family home. Where a family lives in a condo or a co-op, the credit can be claimed for renovations to the family's particular unit or for the family's share of the cost of eligible expenditures made to renovate common areas.

The federal government has issued a publication outlining the details of the Home Renovation Tax Credit, and that publication, which includes examples of eligible and non-eligible expenditures, can be found at <http://www.budget.gc.ca/2009/pdf/pamphlet-depliant3-eng.pdf>. It is expected that the Canada Revenue Agency will be issuing additional publications providing details of each of these measures, and those publications will be listed on the "What's New" section of the CRA Web site at <http://www.cra-arc.gc.ca/whtsnw/menu-eng.html>.