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Understanding TAX Rental Properties

Who Must Report

If you own a rental property, you must report rental income and losses in **proportion to your ownership**. Co-owners cannot change the percentage of their rental income (or loss) unless the percentage of ownership changes.

Personal Portion of Rental Property

If you rent a portion of the building in which you live, you can claim expenses that pertain to **the rental portion** of the building.

What Qualifies as a Rental Loss

When rental expenses exceed rental income, a rental loss is created that may be deductible against other income. However, if rental revenue consistently does not cover expenses, then a reasonable expectation of profit does not exist and rental losses are not deductible.

If you rent your property to a relative, you cannot claim a loss if you are renting at a lower rate than you would rent to other tenants.

What Expenses are Deductible

Current expenses are deductible from rental income in the year incurred; they include:

- Advertising
- Insurance
- Mortgage interest (not the principal portion of the mortgage payment)
- Maintenance and repairs
- Motor vehicle and travel expenses (limited circumstances)
- Office expenses
- Legal and accounting fees
- Property taxes
- Strata fees
- Utilities

What Expenses are Not Deductible

Expenses that are of a lasting nature, extend the useful life of your property, or improve it beyond its original condition are considered capital outlays. These amounts are not deductible in the year they are incurred. They are added to the capital cost of the building and depreciated over several years; they include:

- Purchase price of the property
- Property purchase taxes
- Legal fees connected with the purchase
- Furniture, appliances, and equipment rented with the property
- Renovations
- Costs to put the rental unit in a condition for rental or resale

Capital Outlays

Sometimes it is difficult to determine if an expense is a capital outlay. Ask yourself the following questions to determine the nature of the expense:

Does the expense provide a lasting benefit? If yes, then it is a capital outlay. An example would be the cost of vinyl siding on a wooden house.

Does the expense maintain or improve the property? If it improves the property beyond its original condition it is probably a capital outlay. Replacing wooden steps with concrete steps would be a capital outlay. Repairing the wooden steps would be a deductible expense.

Is the expense for a part of the property or for a separate asset? Things like replacing a fridge, hot water tank or washing machine are capital outlays.

What is the value of the expense? Compare the cost of the expense to the value of the property. If the cost is considerable, it is a capital outlay. While this test is not a determining factor by itself, it does provide some guidance.

Other Considerations

Special situations may arise that affect the property owner; they include: change in use, repeated losses, sale of rental property, principal residence designation, recapture of capital cost allowance, and replacement property. These situations must be reviewed in detail to determine the tax consequences.