



## Commercial & Investment Real Estate Report

### Capital Gains and Investment Real Estate

The effects of the capital gains taxes on after tax profit is a conversation I have with every client. Unlike the US which has a provision in their tax code called a 1035 exchange allowing sellers to defer a capital gain if they purchase another property, Canada requires taxpayers, except in rare cases, to report and pay tax on capital gain when the gain is realized. Capital gains tax takes a big chunk of your investment. Suppose, for example, that you own an investment worth \$2,000,000 and that you bought it many years ago for \$200,000. You've done some capital improvements and incurred some costs selling the building and your cost amount, for tax purposes is \$400,000. If you were to sell today at the current inclusion rate of 50% your capital gain of \$1,600,000 (\$2,000,000 minus \$400,000), \$800,000, would be subject to tax. If you're in the highest tax bracket, which you probably would be if you had a capital gain of \$1,600,000, you'd pay about \$400,000 in capital gains tax. This amounts to a 25% tax rate on your capital gains if you hold the asset personally but could be less if a corporation owns the property as the marginal tax rate will be less. The capital gains tax will still apply to 50% of the capital gain regardless of whether the asset is owned corporately or personally.

Now, suppose the inclusion rate increases to 75%. If you were to sell the same property after that change, your tax bill on the capital gain would be \$600,000, or 37.5 per cent. That's a

\$200,000 increase in tax.

The portion of capital gains that has been taxable is at the lowest it's ever been since capital gains started being taxed back in 1972. Until 1988 the tax was 50% but then rose to two-thirds and in the 1990's was 75% before dropping back to 50% in 2000 where it's remained ever since.

I've spoken to a number of people who expect the capital gains exclusion rate to rise. Covid expenditures have resulted in huge fiscal deficits. At some point the federal government will have to increase revenue. Capital Gains has long been seen as income enjoyed by the wealthy who don't have to work for it. I can say that this is not the case for the vast majority of my clients. Most investment property owners are self-employed who have managed their investments for years and look at their properties more as a pension replacement. The newly elected federal Liberal minority government will face pressure from the NDP to increase taxes for affluent Canadians. Increasing the inclusion rate for capital gains tax checks many of the boxes for what many will perceive as a 'good' tax. In the United States, Biden announced plans to increase Capital Gains Taxes to a level almost double what Canadians are currently paying making an increase in this country more politically palatable.

Taking advantage of today's inclusion rate could make sense.

Here are a few strategies that you may want to talk to your accountant about:

- a) Transfer property to a holding corporation that you control if you own the property personally. You would still end up paying some capital gains tax now but may be able to take advantage of today's inclusion rate. Each tax situation is different so please talk to a tax professional about the advantages and disadvantages of this strategy.
- b) You may be able to defer some capital gains if you take back a mortgage at the time of sale or you can claim a reserve. This may allow you to spread paying off the total capital gain for a period of up to 5 years since you haven't collected your full sale proceeds and therefore won't be realizing the entire capital gain the first year. This may help to put you into a lower tax bracket if you spread out the capital gain over time, but you may be subject to more tax if the inclusion rate goes up.
- c) If you were considering selling in the short-term in any case, consider selling now before the inclusion rate goes up.

In any case, please let me know if I can be of any assistance.

#### Recent Blog Posts that can be found at [DonMulholland.com](http://DonMulholland.com):

- Over 1,000 mixed-use properties listed as Historical by Toronto Preservation.
- Update on rules enforcement at the Landlord Tenant Board during Covid
- Province mandates all large municipalities to increase density near major transit hubs.
- How Toronto is meeting increasing affordable housing needs.

[www.DonMulholland.com](http://www.DonMulholland.com)

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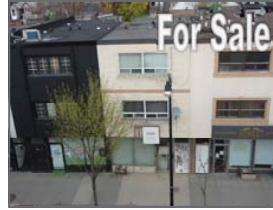
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## Don Mulholland's Recent Real Estate Activity:



**207&207A Cowan Ave.**  
 Asking Price: \$7,595,000

- Almost 20,000 sf usable area.
- 6 Residential abv. grade loft units, 2,000 to 3,000 sf each most w/ 16'+ ceilings
- High basement w/ addition studios and apartments.



**2768 Dundas St. W.**  
 Asking Price: \$1,750,000

- Over 3,000 sq. ft. abv. grade.
- 6 car tandem parking in rear.
- Junction Location near many new condo developments and walking distance to the subway and UP express.



**45 Ossington Ave.**  
 Sold Price: \$3,350,000

- larger than it seems!
- 1,300 sf storefront w/ 13' ceilings.
- 2,000 sf 2 lvl apt. above w/ 700 sf deck.
- Prime Ossington location.



**212&214 Greenwood & 1289 Gerrard St. E**  
 Sold Prices: \$1,500,000 & \$1,768,000

- Corner property & 2 adjacent semi-detached Bldgs.
- Mixed-Use perfect for Restaurant user or Live/Work.



**68 Abell St. # 5 - 11**  
 Sold Price: \$2,924,000

- 4,766 sf divided into 7 main floor commercial condo units
- Fronting on to pedestrian walkway
- Steps to Queen W and the Drake Hotel.



**1308 Queen St. E**  
 Sold Price: \$2,850,000

- 2,900 sf. Industrial building on corner lot
- 4 car parking. 14' ceilings
- In middle of redevelopment zone. mid-rise potential



**193 Augusta Ave.**  
 Sold: \$1,623,000

- Overlooks Greenwood Park w/ newer rear extension
- Configured as 3 residential apartments.
- Perfect Live/Work opportunity



**187-189 Carlton St.**  
 Sold Price: \$5,250,000

- 2 merged semi-detached Victorian in Cabbagetown
- 7,000 sf of offices w/ 4 x 2 bdrm units w/ decks & frpices
- 11,589 sf in bsmt. 52' x 140'



**899 Dundas St. W.**  
 Sold Price: \$2,950,000

- Steel construction, purpose built Live/Work Bldg designed by Kohn Shnier Architects
- Main floor occupied by OVO paying \$96K per annum.
- 2nd & 3rd flr modernist Apt.



**837 Danforth Ave**  
 Sold Price: \$5,000,000

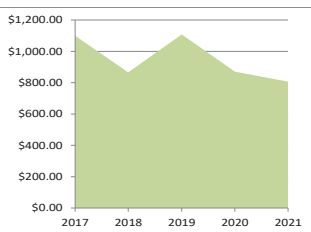
- 13,759 sf above grade w/ 10 car pkg near subway.
- Excellent user or income property
- mid-rise development potential. 60' x 120' lot

Don Mulholland is a proud member of the following organizations:

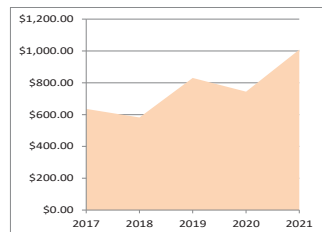


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 Commercial Real Estate's Global Standard for Professional Achievement

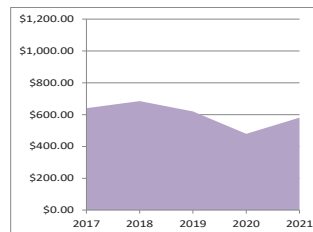
Queen St. W. (Spadina to Dufferin)



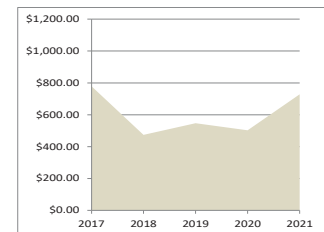
Dundas St. W. (Spadina to Dufferin)



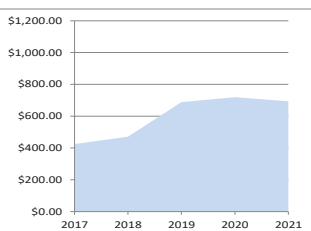
College St. (Spadina to Lansdowne)



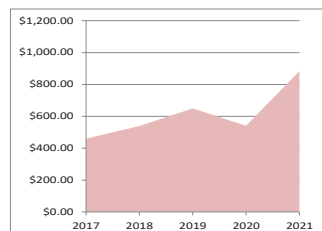
Roncesvalles Ave.



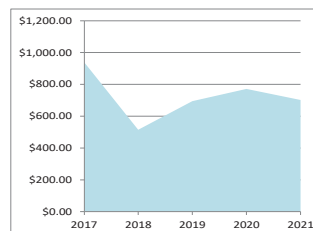
Queen St. W. (West of Dufferin)



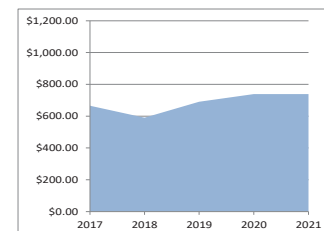
Dundas St. W. (Dufferin to Bloor W.)



Spadina Ave.



Bloor St. W. (Spadina to Dundas W.)



The table above includes all commercial sales reported on MLS® by the Toronto Real Estate Board CoStar and are provided to show general market conditions and trends. Sales prices vary by block. Many factors affect property values such as location, size, configuration, use, taxes, operating expenses, condition of the property and development potential. Please call me for the latest information relevant to the pricing of your property.