

## **DO YOU OWN RENTAL PROPERTY OR RENT A PART OF YOUR HOME?**

If you own property and rent it as a source of revenue, the income or loss must be reported on your tax return. If a net rental loss results, it can generally be deducted against other sources of income for the year.

Expenses you incur to earn rental revenue can generally be deducted against this revenue. These expenses can include mortgage interest, property taxes, insurance, maintenance and repairs, utilities, advertising and management fees.

Capital expenses, such as the cost of the building (but not land), furniture and equipment, may be deducted through capital cost allowance (depreciation) over a period of years. However, capital cost allowance may only be claimed to the extent of rental income before any claim for capital cost allowance. In other words, you cannot create or increase a rental loss through the deduction of capital cost allowance.

If you rent units in a building in which you live, you can deduct a reasonable portion of expenses relating to common areas.

There are some pitfalls to avoid in property investments:

- You must have a source of income or potential to earn income against which to claim expenses. There is some uncertainty about whether a reasonable expectation of profit is required if losses continue over an extended period of time.
- If you rent property to a relative or close friend at less than market rates, any rental loss you incur could be denied.

***Tax tip: If you own more than one rental property, you may deduct automobile expenses incurred to collect rents, supervise repairs or provide general property management.***

**Credit: This article was taken from the 2013 “Managing Your Personal Taxes” publication of Ernst & Young LLP**