Before You Sell a Rental Property

The costliest mistake is the timing, not the price.

Bliss Financial Consulting Inc

How to use it: if you plan to sell a rental property, or are wondering what to do with it later, tick each item. Anything left unticked is what to think through before you sell.

1 What role does this property play?

- [ ] Know what the property does in your retirement plan: if the rent is important income and you still want to manage it, keep it
- [ ] If managing it is getting tiring, too much of your wealth is in real estate, or your children don't want it, consider selling in stages
- [ ] Asked your children whether they want to become landlords

2 Tax in the year you sell

- [ ] Estimated the capital gains tax and the recapture of depreciation in the year of sale
- [ ] Know CCA depreciation is not tax-free; it only pushes today's tax into the future
- [ ] Plan the sale for a lower-income year to avoid the OAS clawback

3 Keep room to offset the tax

The same property: one family pays close to zero tax, another pays six figures.

- [ ] Kept RRSP room in reserve to use against the tax in the year you sell
- [ ] Know that interest on money borrowed to invest is tax-deductible

4 Several rental properties

- [ ] Sell over several years so no single year pushes your income into the top tax bracket
- [ ] Looked into a vendor take-back mortgage (VTB) with the capital gains reserve to spread the gain over up to 5 years

5 Where the sale proceeds go

Selling the property and paying the tax is not the end of it.

- [ ] Know that if the proceeds sit in a non-registered account, interest and dividends are taxed every year, and gains are taxed again when sold
- [ ] Considered putting the money somewhere else, such as a participating life insurance policy that grows and passes on tax-free

6 If you keep it for life

- [ ] Know that if the property is kept until death, capital gains tax is due on the growth, depreciation is recaptured, and it usually goes through probate

Remember: Same property, same market. What makes the difference is when you sell, and whether you prepared the right tools in advance.

Can't tick a box? Scan to add us on WeChat and send us your question.

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