



Real Estate for Entrepreneurs

By Brian Madigan

One of the best opportunities for investment is owning your own building. This is a great advantage for small business entrepreneurs.

If you have a location for your business that will be relatively stable over time, then you should seriously consider buying it rather than renting it. For some reason, the same people who advocate home ownership to others often miss this opportunity for themselves.

Let's consider some of the advantages. The interest on the mortgage is tax deductible. You will be able to offset current income by taking capital cost allowance. The value of the building will in all likelihood keep pace with inflation. In fact, if you choose a good location, the value will outpace inflation. You can use the increase in equity to finance other aspects of your business. Interest charges are bound to be less than you would pay for factoring or assigning receivables. And, don't forget that there is no tax when you remove this equity.

As time goes by, it will be time to retire and reap the profits of your lifetime of work and investments. You should consider selling the business and the real estate separately in order to maximize your overall return. Hopefully, you will have investments in RRSP's and IPP's as well. The real estate is a bonus. It is now just like having an additional pension. Your regular mortgage payments over 25 years have now eliminated the debt on your property. All in all, the monthly payments were not that much higher than you would have paid, simply in rent.

If you sell the property you are liable for the recapture of capital cost allowance as well as the capital gain on the property. These tax liabilities can be alleviated somewhat at the time of sale by properly structuring the transaction. Be sure to obtain proper tax advice. The liability for recapture could be eliminated by demolishing that part of the structure where the original improvements were made or by renovating or otherwise improving

the premises. The capital gain might be deferred through the use of a vendor take back mortgage. Additionally, you might be able to take advantage of the small business capital gains exemption. Over a period of 25 years, you really should own the realty associated with your business.

When is the right time to consider all these pension and tax issues? Most people wait until they are ready to sell. But, truly the best time to undertake the review is at or prior to the time of purchase. Why wait?

So, when you are about to submit an offer you should consider; who should own this property, me, my spouse, my business, a new company, a family trust. If you're not sure, submit the offer "in trust" and figure out the most beneficial method of ownership prior to closing.

Brian Madigan LL.B., Commercial Realtor is an author and commentator on real estate matters and you may direct questions to him at Coldwell Banker Innovators Realty Inc. 905-450-1855 or BRMadigan@Rogers.com