

Interest Deductibility Alert

The Concern

The federal Department of Finance proposes amendments to the *Income Tax Act* that could devastate real estate investment and depress real estate markets in BC and across Canada. The proposals would negatively impact investments made in good faith by small investors, and should be rejected.

If implemented, the changes could lead to lenders refusing to provide loans to people looking to acquire highly-leveraged investments in real property due to concerns that disallowed expenses would affect repayment.

They would adversely affect the purchase and sale of securities, particularly higher risk equities, and could devastate real estate investing in Canada.

The Issue

The proposed amendments would take effect in 2005. They would move the current test for deductibility—which currently says owners must have a possibility of profit—to a probability of profit, which is a more exacting standard.

As well, profit would be redefined to exclude capital gains. Therefore, an investor who expected to realize a profit on the sale of a property, but not on a regular income stream, such as rental revenues, would be unable to deduct losses from other sources of income.

The proposed amendments present three major problems:

1. A requirement to test for the “cumulative profit” expectation each year in which a loss is realized.
2. No carry forward provision for the deductibility of losses against income in future years.
3. No exception for investments made prior to legislation of the proposed amendments; i.e., no grandfathering.

Action

To avoid significant negative effects on the BC and Canadian economies, REALTORS and the British Columbia Real Estate Association ask the BC government to urge their colleagues in Ottawa to reject these proposed changes to the *Income Tax Act*.

For more information, please contact:

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