



The Gammer Report

BUSINESS VANCOUVER

Capital Gains Tax: discriminating against small investors

The Capital Gains Tax is a burden on small investors that prevents people from reinvesting into better assets and specifically discriminates against middle income earners.

Capital Gains Tax is paid by a person or company on the sale of real property. 50% of the net money received on the sale of the property is treated as though it was part of a person's regular income and charged at their marginal effective tax rate.

Let's say mom and pop saved up their money and bought an apartment building in Winnipeg in 1988 for \$350,000 and managed it and planned on it helping fund their retirement. Today mom and pop are semi-retired and each have an annual incomes of under \$50,000; they want to move to Vancouver and buy a new apartment building to be near their grandkids. If they sold it today for \$2,000,000 they would be charged \$250,000 in capital gains taxes on the sale of the building, and have less than \$1,750,000 to reinvest in Vancouver! So, they say to themselves, "Why pay 'that much tax' when we can just keep collecting our \$65,000 per year in rent cheques and just be absentee landlords?"

From time to time small investors may want to up-grade their current investment property to a better performing asset; and sometimes they may want to move their assets with them when life circumstances change. However, the Capital Gains Tax will penalize them for moving or growing because the tax is charged every time a person sells their property. The penalty is so high that few people sell investment properties and many end up holding on to them until death. Meanwhile the property may have fallen into disrepair or even get boarded up, but some owners would rather have a boarded up derelict building than pay the exorbitant Capital Gains Tax.

Large companies are not treated in the same manner as the small investor. When Real Estate Investment Trusts or other large companies change their property mix and want to move their investments from one asset class to another or from one region of the country to another; the government considers this part of regular business activity. No Capital Gains Tax is charged on the sale of any real property for these types of transactions - because they are large companies.

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There was an apparent arbitrary decision made that a company that has 5 or more employees dedicated to working in real estate should not have to pay the Capital Gains Tax. The same rules do not apply to the small investor.

The Capital Gains Tax discriminates against small investors because it does not afford the benefits of the tax system equally to all investors regardless of the number of employees they have.

The majority of people who pay Capital Gains Tax are small investors. The Capital Gains Tax is paid by almost 95,000 tax filers each year in Canada, of which 66% of those filers have net incomes of \$50,000 or less. This is clearly a tax on middle income Canadians.

The Canadian Real Estate Association (CREA) has proposed the government defer, or rollover, the collection of the Capital Gains Tax when the seller of investment property reinvests into another property within 12 months. This would in effect be similar to an RRSP. As the person buys and sells Canadian real estate the impact of the Capital Gains Tax would rollover until the person wants to take their money out of their real estate assets and claim it as income. That would be the time the person would pay all their accumulated Capital Gains Tax to the government.

The CREA proposal is not about reducing the tax or getting rid of it, it is about deferring it and having the government collect it when the person receives it as income. Bringing in a deferral of the Capital Gains Tax will remedy the tax lock-in effect by allowing an investor to upgrade or change asset classes, or change locations without incurring a tax penalty against the value of his assets.

A Capital Gains Rollover would put the small investor on equal footing with the large real estate corporation and still allow the government the ability to collect tax from individuals when they truly take it as income, and not just when they try to change or grow their real property investments.

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