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The Need for Capital Gains Rollover

On March 26-27 I joined hundreds of other Realtors from across Canada as the Canadian Real Estate Association met in Ottawa to lobby Members of Parliament. One of the issues discussed was bringing in changes to Capital Gains and how to help the federal government bring changes to the tax system that encourages and stimulates growth for small companies and individuals.

Capital Gains Roll Over is a proposal whereby the proceeds of the sale of a property are reinvested into another property within a period of time, such as one year, without incurring a tax liability. This would be similar to a person selling and buying stocks in their RRSP and not paying taxes on the gains until they actually take money out of their RRSP.

Large corporations already enjoy this privilege. When Canadian corporations reorganize, merge, wind up, or go through acquisitions the tax department allows for the deferral of taxes as a part of doing business and the corporation does not pay a capital gains tax in this process.

However the situation for small investors and individuals is entirely different. Currently if a small investor or family owns an investment property, such as an apartment building or small strip mall and they want to sell it and up grade to a superior asset, the proceeds of that sale are treated as if it were income and the investor incurs a capital gain liability.

As a result of this situation the small investor is holding on to properties exclusively to avoid paying capital gains taxes. Small investors are unable to rebalance their portfolios and invest into assets that generate a better rate of return because they are avoiding paying the tax. As a result of this it is making certain assets appear more attractive than they are because the owner chooses not to sell them.

This situation has penalized pioneer investors and small investors across the country. The tax policy has had a negative impact on the downtown cores of Chilliwack, Mission, Langley, Surrey and cities across the country. The early small investors that bought land in a historic city core have been locked into their ownership of a property and cannot sell it otherwise they will trigger a huge tax bill. Further, these long time owners are less likely to upgrade and refurbish their asset. Thus, downtown cores deteriorate and growth migrates to the less developed areas on the edges of cities that are cheaper to acquire and develop.

Deferral of capital gains and the transfer of ownership is not only good for the seller, it is also good for the purchaser and the tenant. When new ownership takes over an asset, frequently there is a reinvestment and up grading of the asset as the new owner will try to increase the income it will generate and realize a better rate of return than the former owner. This in turn will help turn around the lagging commercial districts of many of the Fraser Valley and Canada's older city cores as new tenants are attracted to these areas.

Changing the laws on capital gains will not only stimulate the economy it will revitalize the older lagging commercial districts in cities by increasing the badly needed rental housing stock, and encourage risk in new commercial ventures. Our tax system needs to be competitive and conducive to stimulating growth and encouraging entrepreneurs to look at old assets in new ways. Capital Gains Roll Over and tax deferral systems are in place for other investments such as personal RRSPs and large Canadian corporations, the federal government needs to make the tax system fair for all Canadians, including the small investor.

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