

## Property Subdivision of Principal Residence and building of 2 units.

### Summary

- Client and his younger brother (X) intend to subdivide their mother's Principal Residence
- House was built by their mother and father in 1960 and lived in since then
- The mother will gift the value of one sub divided block to the value of \$200K to the brothers
- Approximate values
  - o Land 750M2
  - o Land \$400K
  - o Improvements \$400K (2x units)
- The mother will own and live in one unit
- Both Client and X will own 50% each of the other unit
- X will live in the other unit
- Client will rent his 50% share in the other unit to X
- The rental will be at arm's length with a rental agreement being signed as part of the Residential Tenancies Act
- Rent will be decided by referring to a local Registered Real Estate Agent and Property Manager

### Considerations

- Helping the mother move into a new, low maintenance house
- Rental property for Client subject to Capital Gains Tax on sale
- New house for X to rent and own 50%
- Capital Gains Tax free for mother
- Capital Gains Tax free for X as it becomes his principal residence
- If either house is sold within 5 years then GST will apply on the sale
- Client's share of the property recommended to be in Client's spouse name based on 2010 taxable income
  - o Client taxable income \$18,000
  - o Spouse taxable income \$94,000
- Spouse can vary her Tax Instalment Deductions to assist with cash flow
- More simple and less risky for Client to purchase rental property in own name completely independent of family

- Client need to give close attention to family relationships as these are likely to be tested when dealing with the finances of the project
- It is strongly recommended that a shareholder type agreement is set up between all parties covering such things as exiting the agreement, cost of the building, non payment of rent, divorce, death and incapacitation etc