

FAQ ISSUE #39 Revised 9/12/2012 BUYING A BUILDING

Tax Question:

Why should I buy a building?

Facts:

Many successful corporations have surplus cash or other assets earning little to no income. This cash could be better used by investing in it a commercial property, especially if the corporation is running its business out of the property.

Discussion:

One of the most tried and trusted methods of wealth generation is to invest in property. Unlike many corporate assets, land and buildings have historically appreciated in value over time. By purchasing your own premises to operate the business from you will not only profit from an increase in property values but also enjoy other benefits, such as:

- (1) *Cost certainty.* Rather than paying rent to a landlord that may increase on a regular basis, the company has control over its property costs. The major cost fluctuation in ownership will be interest rates; however, rates can be set at predetermined levels over various time periods which allows for better budgeting control.
- (2) *Competition.* As a tenant in a building owned by a third party landlord, the company has little control over which other tenants occupy the building. Thus, the company could find a competitor moving into the same building. If the company owns its own building, then it has control of who the other tenants are. It also allows the company to encourage complementary businesses to occupy the suites.
- (3) *Revenue source.* If the property is too large for the company's current needs, the excess capacity can be rented out which will help to cover property costs. This also allows flexibility because if the company grows, it can reoccupy rented out units rather than having to persuade neighbours to move or find new premises.
- (4) *Tax savings.* In certain cases, rental income would be taxed at the small business rate (13.5% for BC in 2012) compared to passive income tax rates (44.67% for BC in 2012) (see FAQ #10 Rental Income). Also, the building would be capitalized and amortized at 4% for tax purposes. The tax depreciation can be claimed against pre-tax business income which reduces taxable income and taxes.
- (5) *Retirement income.* When it comes time for the shareholders to retire, they can sell the operating business and keep the property. This will provide additional retirement income with little work required.

Recommendation:

If you have questions concerning purchasing property, please contact us at Gilmour Knotts Chartered Accountants for our help on this issue.



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