



B L Garbens Associates Inc.
Independent Financial Advice
Professional • Personal • Proactive

inBrief *financial information you can use*

Summer 2007

CONTENTS

- Thinking of Running a Business from Home?
- Bitten by the Renovation Bug?

PRESIDENT'S MESSAGE



If you are a fan of HGTV, you may have been inspired to do more than just watch room makeover shows, you may be planning a remodel of your own. Sometimes, it seems like everyone's caught the fever.

One of the biggest financial returns on your remodel dollar is also one of the simplest. The lowly bucket of paint in a trendy neutral, plus the usual decluttering and restyling we've all come to appreciate provides a top-rated ROI. So if that dream kitchen or bathroom is just out of reach right now, put a paintbrush to work in the meantime and start adding value to your home right away.

A simple solution that works, as long as you balance the painting with summer fun, of course.

Barb

Barbara L. Garbens
MBA, RFP, CFP



Thinking of Running a Business from Home?

The idea of running a small business from home has appeal for increasing numbers of Canadians. Structured properly, this can allow the homeowner to write off a portion of certain expenses such as mortgage interest, property taxes, utilities and insurance. But it can also result in a tax problem down the road if you're not careful.

What does Canada Revenue Agency (CRA) have to say about the matter? First of all, you can be considered to have sold part or all of your property when there is a "change in use". For example, if you convert part or all of your principal residence to a business operation, or you change it back from business to personal use, there is a deemed disposition of the business part of the property at fair market value.

Because of the principal residence exemption, there will be no capital gains tax to pay on conversion from personal to business use. However, on sale of the property, or conversion back to personal use, it's possible that tax may be payable

on any gain that relates to the years of business usage.

What you would need to do is to split the selling price (or the fair market value of the property) between the part you used as your principal residence and the part you used for business purposes. CRA will accept a split based on square metres or the number of rooms, as long as the split is reasonable.

However, there is a way around this problem. CRA has established three conditions that allow your whole property to qualify as a principal residence, even while part of it is being used for business purposes. Just be aware that you have to meet all three of the following conditions:

- Your business use of the property must be relatively small in relation to its use as a principal residence
- You haven't made any structural changes to the property to accommodate the business
- You have not deducted any capital cost allowance (CCA) on the part of the home you're using for business

In general, if you're only using one or two rooms for business, and you meet the other two conditions listed above, you should be okay.

Bitten by the Renovation Bug?

Take a drive through any local residential area, and you'll find that home renovation has become the national pastime. In fact, Statistics Canada predicted that we would spend over \$40 billion on renovation and repair in 2006.

Several factors have contributed to the renovation boom. Strong stock market gains over the past few years, as well as the receipt of inheritances, have given many people the means to upgrade their homes. The low cost of borrowing has encouraged others to take out loans to finance their improvements.

But there's no doubt that renovations can be expensive. What should you consider when you're planning how to pay for your project?

An RBC Royal Bank survey conducted last fall found that 53% of homeowners use cash to pay for renovations. It's definitely the least costly approach. You can use cash already available, or plan ahead and build a cash reserve over time. Also bear in mind that renovation projects can take many months, and you don't necessarily need to come up with the total cost all at once.

If using cash isn't an option, and you're disciplined about paying off debt, a line of credit is a good alternative. A secured line of credit, also known as a home equity line, carries a lower interest rate than an unsecured line, although there will be legal and appraisal fees required to set it up. Generally, you would use the secured line if you expect to borrow over \$30,000 or so. Below that level, the set-up fees will likely outweigh the lower interest costs.

A personal loan or mortgage refinancing is an option for those who do better with a fixed payment schedule. Although the interest rates for a personal loan are

typically higher than those offered on credit lines, the scheduled payments ensure that the debt will be gone by the established date. The same rationale applies to refinancing the mortgage. Once again, though, expect to pay for legal and appraisal fees.



For those who are committed to paying off their debt quickly, the flexibility of a line of credit is a distinct advantage.

Anytime you have extra funds available, you can apply them to the outstanding balance.

But if your approach to money management means that you're more likely just to make the minimum payment required, you may be better off with the structure of a fixed-term loan. Flexibility is only good if it helps to reduce the debt more quickly.

HOME RENOVATIONS

One of the benefits of a home renovation is that it increases the value of your property, so that you recoup some of your cost when it comes time to sell. The Appraisal Institute of Canada surveys its members regularly to identify the projects that provide the highest payback potential for homeowners. Here's their latest list:

Kitchen upgrade	75-100%
Bathroom upgrade	75-100%
Interior/exterior painting	50-100%
Roof replacement	50-80%
New furnace	50-80%
Doors and windows	50-75%
Deck	50-75%
Construction of a garage	50-75%
Installation of a fireplace	50-75%
Flooring upgrade	50-75%
Basement renovation	50-75%
Recreation room project	50-75%

Improvements to the exterior of the property, such as fencing, landscaping, and paving, typically pay back less than 50% of their cost.

MATTERS OF INTEREST

RRSP Maturity Date Changed to 71

Persons who are 70 or 71 years of age in 2007 will be allowed to make contributions to their RRSPs in 2007 and 2008 to the extent they have contribution room available. The specified minimum amount to be withdrawn from an RRIF will be waived for 2007 and 2008. As well, RRIFs for persons under the age of 71 can be re-established as RRSPs as long as they are re-converted into an RRIF in the year in which the individual turns 71 years of age.



B L Garbens Associates Inc.
39 Granlea Road, Toronto, ON M2N 2Z6
Tel. (416) 227-1543 Fax (416) 227-1547
email: bgarbens@pathcom.com
www.blgarbens.com