
FineAnswers

Answers to questions on tax and finance

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REIT'S or liquid REAL ESTATE are they as good as they seem?

Recently a number of articles started appearing in the financial press about REAL ESTATE INVESTMENT TRUSTS.

What are REIT's.?

REIT's , like mutual funds , are a commercial trust and therefore all profits, losses, capital gains and capital losses flow through to the unit holder.

Can an owner of a REIT redeem his or her units for cash?

REIT's will not cash your units. However the units trade on the stock exchange and like shares of public corporations you can buy and sell them through the stock exchange.

Do units of REIT pay dividends and are the dividends taxable?

Yes. However as dividends are paid before any depreciation is taken out only part of it is taxable.

Are you saying they are returning the capital back to the REIT holder?

If the buildings become fully depreciated and need replacement there will be no reserve funds. So, in that sense some of the capital is returned to the unit holders. However, in actual fact buildings do not depreciate at the prescribed rate of 5% per annum and have a much longer life. Therefore, the fact that REIT dividends are partially tax free is an advantage in most cases.

What is the tax implication of this dividend?

There is no dividend tax credit as the distribution is not from a corporation; but from a trust. Only that part of the

distribution that makes-up the net income is taxable in the hand of the unit holder.

Can I end up paying tax on a larger amount than I receive as dividend?

Yes. In theory that could happen; but in actual fact it may not happen for many many years. That is until all of the buildings of a similar class have been disposed of at a higher price than its depreciated value.

As REIT's mortgage their properties, are unit holders potentially liable for the debts of the REIT?

Yes it seems so. Its best to get a legal opinion.

Generally what are the advantages and disadvantages in owning REIT's compared to a publicly trade company.

- High distribution of cash and in some cases, monthly.
- Lower tax applicable to the cash received.
- No taxes paid by the REIT itself.
- Lower volatility than other stocks.
- Cash distributed monthly.
- Potential liability in some cases if the assets are not sufficient to pay the mortgages.
- No dividend tax credit- it is usually more than compensated by the fact that REIT's do not pay taxes.

Before taking any steps seek professional advice.

The above comments are only general in nature.

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