From the author of the bestselling
REAL ESTATE INVESTING IN CANADA

81 FINANCIAL AND TAX TIPS FOR THE CANADIAN REAL ESTATE INVESTOR

Expert Money-Saving Advice on Accounting and Tax Planning

DON R. CAMPBELL

NAVAZ MURJI CGA   GEORGE E. DUBE MAcc, CA

What Other Canadian Investors Are Saying …

"Easy to follow, makes sense. If only I knew what I learned 15 years ago! Wow! The best time to have this was 15 years ago; the second best time is now."

—Ray Paiement

"In this stormy age of corporate greed, shady mismanagement and out-of-control egos, Don Campbell has forged a reputation as a man of integrity, with solid unwavering values and a vision to help people who want to create financial success."

—Les Hewitt, co-author of the best selling series *The Power of Focus*

"Amazing and informative. It gave me a clearer understanding and restructure of my previous knowledge of investment properties."

—Gloria Lee

"If you want a predictable real estate future, you must design it in advance. I know of no other real estate expert and educator who is as competent as Don Campbell. His research is unmatched and his results predictable."

—Gordon D. Wusyk, Founder and CEO of Predictable Futures Inc.

"I have owned real estate for many years; I now have a system that will allow me to build a portfolio that is stronger and better, and I am better equipped to manage it far better."

—Michael Derocher

"Very well designed and thoroughly covered all aspects of the 'business of real estate investment.' The system has motivated me to work more focused and targeted in real estate investment, using the insights I discovered."

—Rasheed Walizada

"Can be used immediately. Excellent real-world practical solutions. Very informative, but still forces you to commit to your own research. Great job!"

—Wei-Kun Chung

"Simple enough to follow for a mom with two crazy toddlers. The chaos can stay at the playground because I now have a system and plan that doesn't require chaos."

—Samantha Lane

"Very informative, and gives me the confidence to pursue this as a business as everything is step-by-step and well-explained. As a novice investor, this goes a long way in building the confidence required to go ahead."

—Dan Herard

"Easy to follow, codified common sense. The senior tips were fantastic and showed real value. I was looking for a system to use as a framework for my vision and I got it!"

—Sarah Ivey

"All Canadian, extremely well-organized. Learned so much — wish I had known this a long time ago. Has given me structured information so I can get started immediately. One of the most informative pieces of information has been the suggestion to specialize geographically; I had been thinking 'all over the place.'"

—Sandra Tong

"If you are even considering real estate as part of your portfolio, you would be skipping a major part of your due diligence if you did not review the REIN system."

—Claudio Gambetti

"Wish I had joined REIN three years ago when I read the book."

—Peter Rollings

"Outstanding! Your life is a reflection of the expectation of your peer group. Make REIN your peer group and your support system and you will soon see yourself as a professional real estate investor with your own portfolio sharing your own success story and helping others. REIN offers at least 100 times more than what you would normally get for the price."

—Marek Soltys

81 FINANCIAL AND TAX TIPS FOR THE CANADIAN REAL ESTATE INVESTOR

Also by Don R. Campbell

Real Estate Investing in Canada: Creating Wealth with the ACRE System, 2nd Edition

Also by Don R. Campbell with Barry McGuire, Peter Kinch, and Russell Westcott

97 Tips for Canadian Real Estate Investors
51 Success Stories from Canadian Real Estate Investors

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EXPERT MONEY-SAVING ADVICE ON ACCOUNTING AND TAX PLANNING

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Introduction

It's Not How Much You Make — It's How Much You Keep — That Matters

This book is unlike any Canadian real estate book ever published. It targets two key areas for investors — financial management and tax — and is ideal for those who want to ensure their real estate investments are profitable by implementing simple tips and strategies to increase profits and lower taxes.

Ignoring the financial and tax implications of real estate investing is easy to do because people get caught up in the excitement of the buying and selling of property. However, the reality is that if you ignore these business fundamentals, you do it at your own financial and emotional peril.

What you will learn: How to make more money with your real estate investments, and keep more of that profit in your bank account.

What you will NOT learn: How to take stupid risks, hide your money off shore or trick the Canada Revenue Agency (CRA). The strategies and concepts taught here are not about tax avoidance; they are about profit and tax management. We live in one of the best countries in the world, and paying tax is a cost of living here. The key is to only pay the tax that you need to, not any extra.

This Knowledge is YOUR Responsibility — Not Your Accountant's

Ignorance is never a defense. Over the last 18 years, I have witnessed countless investors blindly abdicate financial responsibility to their accountants and lawyers. We all need these professionals in our lives, since without them, our businesses would be a mess. However, they still work *for* you and *for* your business and that is an important distinction you never want to forget.

What investors must understand is that, at the end of the day, the buck (and all responsibility for the decisions) stops with them. The professionals they have on their team have many, many clients that they are juggling and doing their best to advise on an ongoing basis. These individuals provide investors with options based on their knowledge. However, at the end of the day, it is the investor's job to know why he or she is signing a document (and what that document is) or making a claim to the CRA. And that is why this book is so important for Canadian investors. It is designed to provide you with clear knowledge and strategies you can start using today to get the best return on your investment dollar.

Ignoring these tips has led many a successful investor to the poor house. Too bad they didn't have this book as a reference before they went "off the financial rails," as they could have easily avoided the pain and financial loss.

No Theory, Just Real Life

81 Financial and Tax Tips for the Canadian Real Estate Investor has been written for you by veteran accountants who are also experienced property investors. This is a critical fact. Tax and accounting theories are important to know, but often the theories don't work well in real life. In addition, tax court decisions change the rules of the investment game on an almost monthly basis and that is why listening to an accountant who also owns investment real estate is so important. Informed and experienced accounting professionals keep on top of these ongoing changes to take care of their own money, and then transfer that knowledge to their clients' portfolios.

By combining their many years of accounting and real estate investing, the authors of this book ensure that the tips and strategies you are about to discover really do work in the real world and will make a positive difference to your bottom line and increase your financial management IQ (FM IQ).

As we discovered in *Real Estate Investing in Canada*, every investor is the president and CEO of his or her real estate investment portfolio, no matter what the size of that portfolio might be. That book, along with others in the series, including *97 Tips for Canadian Real Estate Investors*, taught readers the importance of building a team of professionals that includes real estate agents, mortgage brokers, property inspectors, lawyers and accountants who can give you sound business advice based on real-world experience.

This book will not replace the advice you receive from these professionals. Moreover, it is clearly not "accounting advice." Instead, it is written to arm you with specific action steps and money-saving tips you can begin using right away. This book is meant for people who like a no-nonsense approach to ideas about how they can make (and save!) money while investing in Canadian real estate.

Veterans and beginners are urged to read this book with a highlighter and pen handy and to be prepared to have some of your current thinking turned upside down. While it's true that some of the tips may be considered controversial and even counter-intuitive, that's what helps make them so effective. Whether saving you dollars or making you more dollars, it really is all about how much you keep at the end of the day.

So, read this book, implement the tips along with your accountant, and watch your bottom line grow.

Don R. Campbell
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Author of the bestseller *Real Estate Investing in Canada 2.0*
www.realestateinvestingincanada.com

PART 1

Get Help!
Quality Information Is the Fastest Way to Increase your FM IQ!

TIP #1: THE TRUTH ABOUT DEATH AND TAXES.

You can't avoid death. You can't avoid taxes. Now get on with running a profitable business.

Way too many novice real estate investors get caught in a trap that links tax-avoidance strategies with business success. A wise investor turns her back on that approach and knows exactly where she wants to park her business bus: Since wealthy people pay large sums of money in taxes and poor people pay very little, you will want to focus on running a business that makes money.

Parts 5 and 6 of this book will guide the reader through the Canadian tax system. In the meantime, it's good to remind ourselves that taxes are a fact of life in Canada, where three levels of government collect taxes. The federal government collects taxes via income tax based on your income, personal and corporate sales taxes (GST, alcohol, fuel, cigarettes, etc.), corporate capital taxes (based on your assets, not income), and various fees such as EI, CPP, licensing, royalties and more.

Provincial governments collect income taxes that generally blend in your federal income taxes, sales taxes (except Alberta), corporate capital taxes (based on assets or liabilities) and various fees such as royalties and licensing. Alberta has some components of tax that are independent of the federal government, and Quebec collects its own taxes.

Municipal governments generally collect property taxes, business taxes, builders' fees and licensing fees. There is very little connection between municipal government and your income taxes paid to the other two levels of government.

KEY INSIGHT

Governments do not have money. All of their money comes from some form of taxation. Individuals and businesses essentially act as government "trustees" in that they pay the costs associated with collecting taxes and then remit the money to the government. A good trustee knows the rules!

SOPHISTICATED INVESTOR TIP

You are in business to make money

The majority of taxes are pro-rated based on the amount of income generated. Sophisticated real estate investors recognize there are two ways to make money: you can trade time for dollars through employment or running a business, or you can learn to make your money work for you and reap the benefit of passive income. *Real Estate Investing in Canada* shows readers how they can transition from paid employment to full-time investing, or incorporate a part-time approach that's respectful of the individual investor's tolerance for risk.

Regardless of where you are on that spectrum, always remember that you are in business to make money. As an investor, this means you must assess the risk and take investment action when warranted. Investment decisions should be viewed over a long period of time (10-to-20-years minimum) and should never be focused on schemes that aim to avoid taxes. The real purpose of investment income is to get rich, slowly. This approach takes all of the "excitement" out of investing because it focuses on using tried-and-true investing approaches.

For a refresher on the fundamentals of a tried-and-true investing approach, review Appendix 1. The information gleaned from the Property Goldmine Score Card is essential to risk management in a sophisticated real estate investing system.

RED FLAG

When it comes to tax shelters, be aware that investment schemes marketed as "tax shelters" are not all created equal. Generally speaking, where a loss is projected at some point in the first four years of a real estate project's life, the project is a tax shelter for tax purposes. But look behind the curtain. If the investment is not ultimately expected to make money, why are you investing in it?

NOTES:

TIP #2: ASSEMBLE YOUR TEAM.

Every decision you make has implications for financial management.

Real Estate Investing in Canada identified relationships as an essential part of real estate investing, with real estate agents, bankers or brokers, lawyers, accountants, property managers, tradespeople and co-venturers or co-investors, all supplying key components of a sophisticated real estate investment business team. So, gather your team, but always remember two important points:

1. You are responsible for every decision made; and
2. Every decision impacts financial management as long as it has the potential to affect profitability and the cost of doing business.

KEY INSIGHT

Empower your team. Once you develop your team and the relationships are starting to strengthen, get out of the way! You provide the direction and parameters, but let these key members do what they do best.

NOTES:

TIP #3: HIRE A QUALIFIED ACCOUNTANT

Close and convenient are two of the worst reasons to contact the accountant-next-door!

An accountant with expertise in real estate investment will save you money by providing advice on tax strategies and sound bookkeeping practices. To make sure you're adding the right accountant to your investment team, novice investors need to ask prospective accountants a few questions before they bring them on board. You must determine if the accountant owns or has owned real estate as an investment and has clients who are active investors.

With email, couriers, phone meetings, web meetings, faxes and virtual offices simplifying real-time connections regardless of geography, the location of your accountant's physical office is much less important than his or her experience and availability. Sophisticated investors work with accountants whose client portfolios include a considerable number of active real estate investors. You get people who know what they're doing when you hire people who are already doing it!

NOTES:

TIP #4: GET TO KNOW HOW THE PROCESS OF AN ACCOUNTING PRACTICE WORKS.

> *Data compilation and the ability to meet deadlines matter, but you also want someone who can help you use that information to plan your professional and personal future.*

Accountants charge by the hour or the job, and are deadline driven. As a sophisticated real estate investor, it's your job to look behind the hourly rate and determine if you are getting value for service. To do that, you need to understand that a great deal of an accountant's practice revolves around the compilation of data they need in order to fill out forms for personal taxes, corporate taxes, GST, and so on.

You will want an accountant who is organized and has systems in place that boost efficiency. Most investors who think they can prepare their own data likely don't have systems in place to ensure that they have all the data they need. As you work through this book, you will see why tax preparation is no place for memory games!

KEY INSIGHT

> Your accountant must also be able to meet deadlines, including peak-period work when many clients must meet similar deadlines. It's your job to help your accountant meet those deadlines.

WHY DOES IT COST SO MUCH?

If you have questions about your accountant's fees, talk to him about what you can do to lower them. Accountants generally buy time from their staff or themselves and sell it to clients. If information is difficult to gather, you will pay for the time it takes an accountant to pull it together. Provide your accountant with receipts, statements of income, etc., in an organized way and at one time. Be available should your accountant have questions.

Rush jobs are another problem for accountants — and mean a higher bill for clients. When staff rush through jobs to meet deadlines, mistakes are made. A careful accountant will find the errors during review, but they take time to fix!

SOPHISTICATED INVESTOR TIP

Accountants begin their tax season in the summer prior to the next year's deadline. This is when they review problems, create new templates and generally tinker with compilation and reporting systems. Take a look at some of the systems accountants have in place to help their clients:

1. *The "one-box" system*. Every client gets "one box" so there's no time wasted looking for documents.
2. *One file per desk*. To make sure file data is not compromised, only one file is open at a time.
3. *Set priorities*. Staff know what is required of them when they start a job. First A. Then B. Then C.
4. *Start and finish*. Complete the file you started. This saves the client money because there's no time lost when staff have to familiarize themselves with the information — again!
5. *Procedures. Procedures*. Standard documentation procedures are used so the accountants know how the information was obtained.
6. *Paperless files*. This saves time filing and retrieving papers. (Make sure you have good electronic back-up systems.)
7. *Dual screens*. Dual computer screens reduce errors.

KEY INSIGHT

A well-organized client helps his or her accountant meet deadlines by bringing them well-organized information early.

NOTES:

TIP #5: THERE ARE QUESTIONS YOU *SHOULD NOT ASK* YOUR ACCOUNTANT.

Time is money. So keep your questions relevant and your answers real.

When dealing with your accountant, remember that time is money! Avoid debating issues where the tax savings at stake will save you less than the cost of the discussion and don't ask your accountant's office to send you extra copies of documents you will get as part of your file. (You do not need an extra copy of your tax return, for example.)

Here are some other discussions you should avoid having with your accountant:

1. **Never ask your accountant how you can hide a transaction from the Canada Revenue Agency.**
   Do not ask your accountant hypothetical questions with an illegal implication. Accountants are required to report certain transactions without your knowledge. This includes transactions under laws governing money laundering.

RED FLAG

The biggest argument for not asking how to do illegal transactions is that you risk becoming a "former client." Your accountant wants to do his job, not play games.

KEY INSIGHT

Novice investors often hear about "grey area shortcuts" early in their investment careers. Someone might suggest you sign a document that's not true, assuring you it's a harmless and even necessary strategy. Investors who swim with sharks risk their money and their reputations. Don't do it!

2. **Do not ask your accountant for specific investment advice.**
   American entrepreneur Warren Buffet is one of the few people who really understands long-term investing — and even he makes some mistakes. Do not expect your accountant to do your due diligence. Your accountant is there to help you with administration set-up, advice or tax

issues. He is not trained to be an investor and most times will hedge on answering such questions for fear of lawsuits.

3. **Avoid hypothetical questions.**
   Novice investors may think it is a good idea to ask their accountant about all of the possibilities that may come with a particular investment or investment strategy. It is far better to focus on what you actually intend to do, while adding a few variables rather than a long list.
4. **Expect informed advice, not training.**
   Your accountant's practice is backed by years of education, training, experience and a commitment to continuous learning. Accountants cannot teach their clients everything they know, although they can teach the basics.
5. **Don't expect your accountant to take kindly to questions about the "latest date" you can bring in your documents.**
   Accountancy firms run on deadlines and you should want to help them do their job well. The closer your documents come in to the deadline, the greater the chance of error or a late filing and penalties.
6. **Your accountant cannot guarantee you will not be audited.**
   The best way to avoid being audited is to report all your income and claim zero expenses. This leaves little for the CRA to challenge. Since expenses are reported in order to reduce income and save tax, this is not a reasonable business practice!
7. **Information about what your friends "get away with" is not helpful.**
   You may know a guy whose accountant lets him write-off a Sea-doo. Be realistic in what you ask your accountant. All that really means is that your friend has not been caught. Similarly, you cannot get too creative with your expenses (laundry, shoes, baby safety items) and expect your accountant to look the other way. This is not a game and your accountant understands how concerns about minor items can attract major attention.
8. **But the CRA staff gave you a different answer . . .**
   CRA staff can be helpful, but they do not necessarily have the information to answer technical questions. The agency is also not bound by "decisions" rendered over the phone.

NOTES:

TIP #6: LEARN TO READ FINANCIAL STATEMENTS.

Make it your business to follow the money trail . . .

Financial statements show precisely where money comes and goes in a business. They are meant to be read and understood by the people who are responsible for that money. There are four main components of financial statements:

1. **Balance sheets** show what a business owns and owes at a given point in time. These are your assets, liabilities and shareholders' equity.
2. **Income statements** show how much money a business made and spent over a period of time. Income statements tell you how much revenue the business made in a given year or portion of that year, and what costs were associated with making/losing that money.
3. **Cash flow statements** detail the exchange of money between a business and outside entities over a period of time. An income statement tells you if the business made a profit. A cash flow statement tells you if it generated the cash it needs to pay its expenses and purchase assets.
4. **Statements of shareholders'/partners' equity** show changes in the interests of the business's shareholders over time.

KEY INSIGHT

You are in business to make money. Financial statements allow you to measure performance. Don't just read them, understand them.

NOTES:

TIP #7: CHOOSE AND USE A RECORD-KEEPING SYSTEM.

The best way to know if you're making money is to keep track of it!

Real estate investment offers lots of different ways to make money. Among other things, you can upgrade properties for resale, buy-and-hold rental units for cash flow and long-term appreciation, or hook up with co-venturers who put your money to work in real estate, or help you buy more properties for a mutual long-term gain.

Part 3 of this book gets into the nitty-gritty of financial records. Before we go there, we need to look at the fundamentals behind decisions about why financial records are so important.

First and foremost, when deciding how to manage your records, you need to recognize how the kind of investment you choose can dictate how much time you have to manage those records. (If you are the general contractor on a renovation site, long hours may keep you from doing much more than making sure receipts are put in a safe place!) That said, a lack of time to participate in detailed financial management on a daily basis is *no excuse* for not knowing the financial status of your business.

KEEPING FINANCIAL RECORDS

When people talk about accounting systems, they really mean a reporting system. Tip #8 looks at how you choose a computer program for your system. Before we go there, let's look at how an accounting system creates three reports on a historical cost basis.

1. **Income Statement.** This one starts on a certain date (for example, January 1) and goes to the next year. It shows all revenue and expenses and provides a net income/loss figure.
2. **Balance Sheet.** This shows what you own and what you owe on a given date, potentially December 31. It lists all properties, often at historical cost; meaning what you paid and your balance of all loans/mortgages. It shows your net equity at cost.
3. **Cash Flow Statement:** This is not the same as an income statement. You start with your income statement and add back non-cash expenses such as depreciation or Capital Cost Allowance (CCA). Then you deduct

the principal portion of loan repayments or include additional loans you obtained. Most co-venturers will want this report as they understand it from a cash perspective. Their accountants will want the income statement as that is required to file your personal tax return.

If you're new to real estate investing, or you are updating your reporting system, ask yourself:

1. **Who will use these reports?**
   You will need financial reports for tax purposes, lenders and co-venturers. The tax department needs an income statement for sure, and a balance sheet if you operate under a corporation. Today, tax authorities are requesting balance sheets even where properties are personally owned.
2. **How often will reports be required?**
   Most users will expect annual reports, but co-venturers may request monthly data. Find out what they need to see. The cost of producing detailed reports on a monthly basis may be prohibitive, especially if those properties are part of a 15-to-20-year plan.
3. **What information do users need?**
   Your banker and co-venturers will want an annual balance sheet. They may also want the following:
   a. **Cash Flow Statement.** This statement shows your net income, subtracts non-cash payments (e.g., amortization) and any principal repayments you make on your mortgage or loans, and subtracts building additions while adding cash receipts such as refinancing or additional investor funds.
   b. **Current Value Balance Sheet.** The investors and bankers want to know if the current value of your properties is up or down. Take the balance sheets and add a column for the current value of each property.
   c. **Key Ratios.** One key ratio shows the return on investment (ROI), while others show various liquidity and profitability ratios. The key ratio on investment takes the current value, including rental profits, less the original investment (or investment value at a particular time) to provide the accrued profit. This figure is then divided by the original investment (or investment value at a particular time), less any repayments.
   d. **Cash Forecast.** Shows how the properties are expected to perform in the next few years.

Cash Flow Statement (Income and Expense Spreadsheet)

Description	Total	
Rental Income	$—	
Late Fees Collected	$—	
Laundry and Other Income	$—	
(Less Vacancy)	$—	
Total Income		**$—**
Mortgage Interest	$—	
Bank Charges	$—	
Line of Credit Interest	$—	
Mortgage Interest Penalties	$—	
Legal Fees	$—	
Appraisal Fees	$—	
Accounting Fees	$—	
Bookkeeping Fees	$—	
Inspection Reports	$—	
Other Professional Fees	$—	
Insurance	$—	
Management Fees	$—	
Strata Fees	$—	
Advertising and Promotion	$—	
Meals and Entertainment	$—	
Repairs	$—	
Maintenance	$—	
Utilities—Rental Property	$—	
Property Taxes	$—	
Office at Home	$—	
Internet	$—	
Computer and Office Supplies	$—	
Travel	$—	
Motor Vehicle	$—	
Seminars	$—	
Miscellaneous	$—	
Total Operating Expenses		**$—**
Total Operating Income		**$—**

Description	Total	
Mortgage Principal Repayment	$—	
2nd Mortgage Repayment	$—	
Updates	$—	
Increase in Equity		**$—**
Net Cash Flow		**$—**

KEY INSIGHT

It costs money to plan. But if you don't have a map to show where you're headed, you won't get there!

SOPHISTICATED INVESTOR ACTION STEP

Long before you have a Cash Flow Statement for each investment property in your portfolio, you will need to compile a Personal Cash Flow Summary and Net Worth Statement. Lenders will use these documents to determine whether you can afford the monthly payments of a mortgage, and experienced investors keep an up-to-date copy of this document in their Sophisticated Investment Binder. The binder, which helps lenders approve your deals, must also include a cover letter regarding your investment business, proof of income, a completed and signed mortgage application, a current credit bureau report, a revenue real estate asset statement, proof of down payment and prospective property information.

NOTES:

TIP #8: ALL RECORD-KEEPING PROGRAMS ARE NOT CREATED EQUAL.

Once you understand that your record-keeping system needs to generate financial reports for various users, you are ready to decide what kind of system will work best for you.

If you need to generate reports once a year, the simplest method is to take receipts and total them, by category, using an adding machine with a tape to keep track. Enter the numbers onto a spreadsheet and you have an Income Statement. This system sorts your receipts and lets you avoid reconciling bank and credit card statements, which takes times — and costs money!

Watch for duplicate receipts! They add to confusion as your bookkeeper or accountant can easily forget and enter them twice. This means your tax return will be prepared based on incorrect documentation. Moreover, there is no benefit to submitting duplicate receipts, since you will have to pay for someone to sort the receipts and identify duplicates. Avoid the hassles by shredding duplicate receipts!

If you need more frequent reports, or need to generate reports on a number of properties, adopt a program that works for you, or one your bookkeeper is familiar with. QuickBooks is good if you/your bookkeeper is supervised by a qualified accountant. It allows you to make changes to transactions. Simply Accounting assumes you do not make errors. This means you may have to make "adjusting entries" to correct errors. Excel spread sheets also work well because they are easy to use and you do not need to understand double-entry bookkeeping systems.

KEY INSIGHT

The authors of this book currently prefer QuickBooks over other programs. There are issues with QuickBooks, but as programs change every year (and are only as good as their users!), investors should investigate several programs and choose the one they best understand.

SOPHISTICATED INVESTOR TIP

Do not re-invent the wheel!
by Connie Campbell

When I launched my bookkeeping business in 1992, a friend introduced me to the accounting software, Quicken (made by Intuit). Soon after loading

Sophisticated Investor Tip continues

the software onto my computer and entering our household expenses, I was hooked.

From there, I moved to QuickBooks, which was designed for bookkeeping for companies. As my bookkeeping business grew, I converted my clients to this program and that led to a contract business with a local accounting firm. Forward-thinking accountants, they had bought into the QuickBooks phenomenon, but realized the software is only as good as the person entering the data!

At that time, Accpac and Simply Accounting (then called Bedford) were the mainstream programs and accountants were used to the fact that the only way to fix an erroneous error was to make an opposite entry. That kept most lay people confused. It also meant big fees for the accountants who inevitably had to make a lot of correcting entries to sort things out for their clients.

Before long, I was a QuickBooks expert and when our own real estate portfolio started growing, I recognized the need to set up an easy system that I could duplicate each time we purchased a unit. That led to a template for a very basic set of books. This same template eventually became the basis for my multi-family accounting.

This template, now widely adopted by members of the Real Estate Investment Network (REIN™), is based on a form developed by the Canada Revenue Agency. It enables you to record rental income and tracks what you spend. At the end of the year, you can print a report and use it, with very little adjustment, to file your taxes.

If you would like a free copy of this real estate-specific template, please send an email to info@reincanada.com. You will need the latest copy of QuickBooks before you put the template to work.

RED FLAG

Use the QuickBooks Closing Date Feature and you avoid corrupting tax data. If you enter transactions for 2009 but key in 2008 by mistake, your data for 2008 will be corrupted and your data for 2008 and 2009 will be wrong!

NOTES:

TIP #9: KNOW WHEN TO TRANSITION FROM DIY TO BOOKKEEPER AND ACCOUNTANT.

Time is money. And since it costs money to make money, you need to figure out where your time is best spent. Finding property? Closing deals? Sorting receipts? Generating spreadsheets? Filing tax returns?

Real Estate Investing in Canada and *97 Tips for Canadian Real Estate Investors* walked readers through the advantages of professional property management. Regardless of whether you self-manage your portfolio or work with a property manager, this book assumes you — or someone you really trust — are tracking the daily expenses associated with each of your properties. It also assumes you have some professional accounting advice when it comes to filing your tax return.

If your financial records are behind and your "free" time is consumed with bookkeeping, you don't have the information you need to make business decisions. When your business operations are faltering because you're spending time sorting receipts instead of taking care of business, it's probably time to hire a bookkeeper to keep your financial records up-to-date and in order. Here's what you need to do:

1. Set up a system you and your bookkeeper can follow every month. You and the bookkeeper need to understand how and why specific items are recorded. Whether you choose an Excel spreadsheet or an accounting software program, the goal stays the same: You need a legible record of income and expenses.
2. Make sure the information the bookkeeper generates is the information your accountant needs. If it's not, you'll pay the accountant to get it right.
3. Ensure your bookkeeper and accountant can talk when necessary — and are available to answer your questions, too.
4. Your accountant can help your bookkeeper set up the cash forecast and current value/ROI data discussed in Tip #7. Generally speaking, you do not need an accountant to get you this information once your system is in place. If your accountant stays involved with this information, it will cost you. Think: Billable Hours! That said, you may well benefit from having your accountant help you monitor and interpret the information,

since their expertise can help you identify opportunities and issues. This can be done annually, quarterly or even monthly for more significant operations. Think: Value-Added!

KEY INSIGHT

Leverage is a powerful tool. If you want to use advanced investment strategies, like buying property with less than 20% down, you must be able to access current value/ROI information on properties you want to borrow against. If your property's value is going up, you can use that information to profit from your money—and the bank's. Again, numbers must be current!

SOPHISTICATED INVESTOR TIP

How to get value from your accountant
by Navaz Murji, CGA

Accountants provide two kinds of service: compliance and value-added. "Compliance" covers regular preparation and filing services such as tax returns, corporate financial statements, GST, payroll, etc. "Value-added" service is where you ask questions for planning purposes prior to closing a deal. For example: How should I finance this property? I plan to close the deal this way—is that okay?

Sophisticated investors know they are responsible for the financial decisions they make. They also know that when you are getting professional advice, it's important to ask the right questions! Use the following suggestions to help you zero in on the right questions and make sure your accountant has the information he needs to give you sound advice.

1. When you think of a question, send an e-mail. This gives the accountant time to think about the question and formulate the appropriate response.
2. Make sure the question is real (not hypothetical) and has a tax or investment component.
3. If the deal closes tomorrow, your accountant's answer may not matter. This just frustrates them as their "advice" comes too late.

Sophisticated Investor Tip continues

4. If you do not get a response after a couple of days, phone. (A spam filter may have kept your message from getting through.)
5. Recognize your accountant's bias. Some are more positive towards long-term cash flow properties. Others may not like "flips," mutual funds, foreign exchange traders or day traders. Some may not like real estate at all! While the compliance side of accountants' training is similar, their life experience and investments are different — so find someone who fits with your long-term needs.

KEY INSIGHT

A good bookkeeper will save you money, since data entry work does not require a professional accountant's expertise. A professional accountant, however, will help you sort out bookkeeping problems and identify errors that could negatively impact business decisions and opportunities. Their jobs are both critical, but different.

NOTES:

TIP #10: KEEP IT SIMPLE. KEEP IT UP TO DATE!

A good system will help you minimize your year-end accounting fees.

You are in the real estate investment business to make money. That means you will pay taxes. It does not mean you should pay more than you have to!

The best way to get all the deductions you are entitled to receive is to accumulate proper documentation in a methodical fashion. Set up a proper system to:

1. Minimize your year-end accounting fees.
2. Collect all the income to which you are entitled.
3. Ensure that you do not overpay or pay multiple times for your expenses.
4. Prepare for that fateful day when the Canada Revenue Agency calls for an audit. (See Tips #59-#63.)

KEY INSIGHT

Understand the Ins and Outs of financial record-keeping. When money leaves your pocket, it goes to pay for something. Bookkeeping entries must follow the same pattern. A double-entry accounting system means that when you buy a new pipe for under a kitchen sink, the money has to "come" from somewhere and "go" somewhere. That's why you record it twice.

Owner's Account	Repairs & Maintenance
($42.87)	$ 42.87

NOTES:

INVESTOR-IN-ACTION: VALDEN PALM

Your systems must evolve with your business plan.

Valden Palm can zero in on the crux of his business with obvious ease: he buys and sells real estate to create long-term wealth. But "stuff" happens, even to seasoned investors, and when time and circumstances mean Valden has to get rid of a troublesome tenant or liquidate a property he'd bought for long-term-buy-and-hold, he relies on operational systems to keep his business on track.

Valden likes systems. On the tenant front, every business-related interaction with his tenants is systemized, meaning he can follow a template of action based on the situation at hand. If a tenant has a pet, Valden has a system to handle *all* the problems having a pet could create. That same philosophy kicks in if a tenant's cheque bounces. Valden simply calls up the appropriate system and follows it through. When a tenant gives notice, he reaches for his "move-out" system. Each of these systems is based on a simple, but tried-and-true, checklist developed from previous experiences or the experiences of others. (Valden is not fussy about who learns the lesson first!)

Valden uses systems to clear the lines of communications and set expectations for every business relationship, including his relationships with bookkeepers and accountants. He'll be the first to tell you that he depends on professional advice to lay out his choices. But when it comes to making the final decision, the buck stops with him.

Valden's success in real estate investment goes way beyond the sophisticated use of strategies involving RRSP funds or his innovative approach to finding quality properties to add to his portfolio. What really makes Valden's real estate business sustainable is the way he backs up a commitment to continuous improvement by never underestimating the relationship between his business plan and his tax strategies. Buy-and-sell decisions typically impact both, but not with equal results.

The tips covered in Part 1 delve into the basics of hiring the right members for your team and establishing lines of clear communication. The biggest take-home lesson from Valden's experience is that whenever you feel overwhelmed by the details, take a step back and find out what's *really* going on. In real estate, silence is *not* golden. Do talk to other investors about how they handle a problematic situation and seek professional accounting, tax or legal help where necessary. Then use that information to solve the issue. You might just get a new system out of the deal!

* * *

> "In good times, when properties are turning over fast and everyone's excited about making a deal, it's very easy to take short cuts and forget the details. You tend to get lazy in the good times and that's just human nature. It's also an investor's biggest problem."
>
> —Valden Palm

Some people know him as Mister Home Buyer and others call him Mister RRSP, but there's no confusion about why Valden Palm takes a template-like approach to his real estate business. First, people who use proven systems to help them make decisions end up with more time to be creative about how and where they find new real estate deals. Second, systems generate additional long-term wealth because they improve the way individual properties are managed. "Shortcuts," says Valden, "cost money."

Every once in a while, Valden answers his phone and hears the voice of his banker concerned about the size of Valden's account. "I see there's $300,000 just sitting in your bank account and I'm wondering if we could help." Valden Palm loves these calls. It's been a while since he's really had to take the advice of a banker, but he gets a kick out of knowing some of them worry he might not know how to put his money to work!

Valden's experience with systems comes from remembering what it's like to work without them. Investing in real estate since the late 1990s, Valden's first years were plagued by problems: problems with partners, problems with money, problems with properties. There was a time when the complications of real estate deals and relationships even compromised where his family lived.

That was then. Valden regrouped, struck out on his own and, from the outset, vowed to avoid as many mistakes as he could simply by learning from the mistakes others had already made. The first major step in that direction involved rejoining the Edmonton-branch of REIN (he had held a membership in B.C.). Some friends scoffed at his business plan, thinking "you bought rental property so you could be a kind of slum landlord." Valden had no desire to make money off the misfortune of others. He saw quality real estate investment as a way to help people by giving them a quality place to live. "I had to wrestle with some of my own fears, doubts and bad habits, too and I learned to see mistakes as lessons. What matters is that you learn the lesson — and move forward!"

His current portfolio focuses on residential properties and is a mix of townhouses, apartment condos, single-family homes and houses with suites, all in his home town, Edmonton. He uses his reputation as Mister Home Buyer to find and secure deals, often finding properties through what he calls the "secondary real estate market, a.k.a., the For Sale By Owner market." In recent years, Valden's also sold a number of his real estate holdings to compile cash to purchase some raw lands to re-zone for subdivision development. It's a natural step for ambitious senior investors trying to complement their portfolios by entering the subdivision market. "It gives them a new goal to shoot for," explains Valden. (Remember: Valden did this following systems that had already been proven. He made the jump only when he knew he had systems to back him up.)

Today's market is more complicated given the dramatic rise in Edmonton prices over 2007 and early 2008; especially since that market was followed by a dramatic economic decline. A complicated market isn't necessarily a bad thing, says Valden. "Honestly, you can buy in any market. You just buy differently."

You also manage differently. Since cash flow is important and there are fewer renters, well-managed, quality properties are king. Following proven market systems makes all of the difference. Again, that market demand is a good fit with Valden's systems, which already emphasize quality properties for quality tenants.

The RRSP Connection

A few years back, he took that same model and introduced a sister company, Mister RRSP. He got into that business after hearing how investors can use their fund and stock-based RRSP portfolios to invest in mortgages without having to cash out RRSP money (Tip #80). Drawn to the economic possibilities of tapping into the vast stores of RRSP funds held by Canadians, Valden created his own investment niche. Having studied, tested and mastered the RRSPs in real estate strategy, he now teaches other REIN members how to do it, too.

What never changed was his focus on making sure his business plans are always in step with his tax strategies. To make that happen, he relates to his accounting professionals as key players on his team. He's especially pleased when he takes them an idea, like selling Property "X" because he needs an influx of cash, and they get back to him with several scenarios about how that impacts his business and his tax position.

Rather than managing the situation after the fact, they are "happy to play the role of a dealer in a poker game where information manages the risks and the strategies. They don't want to be the one who plays the hand out. It's their job to give me the best cards they can and then I make the decision," says Valden. (Review Tip #5 for the reasons you should not expect your accountant to tell you what to do in a given situation. It's your money, so it's your decision.)

Because their knowledge of his business is so important, Valden also likes to work with the same accounting firm year-after-year. "Typically speaking, your business accountant is also the one working on your personal income tax. This means your accountant knows your entire financial landscape, and that can be really important when you ask for input about your choices. Personally, I want to do deal with someone who knows my situation and will help me work through several scenarios, because my final decision may have a long-term impact on my business and tax strategies."

Systems and good advice aside, Valden's also a big believer in recognizing where the buck stops with his real estate investment business. "The investor takes responsibility for the decisions," says Valden. "He gets the glory and he gets the pain."

* * *

ACTION STEPS

- ✓ Hindsight may be 20/20, but it's a bad way to run a business. Give your accountant the information he or she needs to give you choices about the decisions you could make.
- ✓ Recognize that business decisions have tax implications. Tax planning doesn't start the month before your statement is due. It's a year-round pursuit.
- ✓ Is your tax planner willing to talk about the really tough issues, like what might happen if your business partnership changes? He or she can help you structure a business to protect the profit-making assets.
- ✓ Who can you approach to learn more about investing RRSP money in real estate? Is this a niche your business should pursue?
- ✓ Who might you approach about investing RRSP funds in real estate? List three names to start.
- ✓ Don't get hung up on people who turn you down. Focus on action versus emotion.

Real Estate / Personal Finance

It's not how much you make—it's how much you keep that matters.

Real estate investing is exciting and can be intoxicating, but you shouldn't let that distract you from the ever-important issues of accounting and taxation. There are many details to keep track of—some small, some not so small, some that are merely beneficial, and others that are essential—and all of them affect your bottom line. This book is designed to help real estate investors focus their business practices around managing their finances and reducing their tax burden, where the results of your hard work really shine. And as an investor, it's essential that you understand these details and how they apply to your portfolio.

Take the advice of Don R. Campbell, Canada's #1 real estate investing expert, and make the most of the properties you own and improve your bottom line.

What other Canadian investors are saying...

"In this stormy age of corporate greed, shady mismanagement and out-of-control egos, Don R. Campbell has forged a reputation as a man of integrity, with solid unwavering values and a vision to help people who want to create financial success."

~ Les Hewitt, co-author of the best selling series *The Power of Focus*

"If you want a predictable real estate future, you must design it in advance. I know of no other real estate expert and educator who is as competent as Don R. Campbell. His research is unmatched and his results predictable."

~ Gordon D. Wusyk, Founder and CEO of Predictable Futures Inc.

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