

Renting a room can bring extra income



MONEYCARE

By Joanne Pooley, CA

If you have the space — and the inclination for it — renting out a room or two, or a basement apartment, is not a bad idea.

It could be a good source of additional income, say for empty nesters, retired couples or widowed persons.

Extra income is always useful, and it certainly helps with the increasing costs of running your home. But the thing about rental income — just like any other income — is that it's taxable. So you're obliged to report it.

Any and all expenses you incur in renting out a portion of your home are deductible against the rental income you received. Any net rental loss before deducting building depreciation, can be deducted against salary, pension, investment or any other kind of income. So that's clear enough.

But what sort of expenses are you allowed to deduct? The simple answer is: any expenses — just as long as they're directly related to earning rental income.

These might include, for example, the cost of advertising your room or rooms for rent. They would also include a portion of your total home expenses — like mortgage interest, taxes, heat, light and water, insurance and maintenance.

So if you have a six bedroom house and you rent out two of those rooms, your allowable expense deductions could be one-third of your total expenses. The other two-thirds are considered personal use, and are therefore not deductible.

If you have to buy extra furniture, beds, dressing tables and so on, specifically for your rented rooms, this would also be a deductible expense as capital cost allowance (depreciation). Other deductible expenses would be things like extra bed linens and towels. Even smoke and heat detectors. What other kind of expenses might you deduct? Well, if you have to pay

for maintenance or repairs, or painting or wallpapering, then these costs are also deductible. As are wages paid to domestic help for cleaning.

And if you have any accounting expenses to determine your net rental income or loss (for your tax returns, for example), or legal fees



(for drawing up lease agreements) these, too, are deductible.

Since you probably want your place to look nice for your tenants, you may want to do some landscaping — a portion of which could also be deductible. And the same thing with mowing the grass or clearing snow, if you pay someone else to do it for you.

And don't forget insurance. You'd probably have to take out additional coverage — in the event one of your tenants falls down the basement steps. One lawsuit could wipe out your income.

Moneycare is general financial advice by Canada's chartered accountants. Joanne Pooley is with Hewitt Associates.

Families can share financial problems

By LORRAINE BELL, CA

Sweating under the collar — both blue and white — seems to be the order of the day for Canadians edgy about the economy. As plants shut down and corporations slim down, more and more families are facing financial problems. There are tough money decisions to be made.

In the course of making those decisions, most families keep their children in the dark. If, instead, parents would take the time to shed a little light on the family's financial situation, their children would not only feel more secure, they would learn valuable lessons about handling money.

Next time you sit down to pay the family bills, try including your older children. Given them an overall idea of the family's monthly expenses and point up some specific expenses, such as groceries or cable television, which affect them directly. Also show them what portion of your monthly or annual paycheque goes into savings, giving them a percentage, rather than a specific dollar figure. The point of the exercise is not to worry or bore them, but to inform them. After all, one of the reasons that many adults are not good at finances is that no one ever took the time to teach them.

Younger children can learn about money in a number of ways. If your 10-year-old thinks he can't live without a particular brand of running shoes but you are unwilling to pay the \$100 bill for them, try working out a deal. If you kick in half, he could earn the other half through doing extra chores around the house or the neighborhood. When you help your children establish goals, they will learn about planning.

If your child receives a gift of money, take the time to discuss options. If the money is spent now, what will it buy? If it is put in the bank, perhaps along with allowance, earnings from chores or other gifts of money, what will it buy later? Explain how savings earn interest. Another option might be for your child to take a

portion of the gift money or earnings to spend now while also putting a portion of it in the bank.


Let your child make his or her own decision. If she decides to save her money, have her deposit it in the bank herself so that she learns to fill out deposit slips, deal with tellers and up-date her passbook. Feeling confident at the bank and knowing how to make smart money decisions will pay off throughout her life.

And, don't forget that children are as apt to give as to spend. Almost all children collect for

UNICEF or enter bike-a-thons or walk-a-thons. Introduce them to the concept of donating their own cash by letting them know you give to charities too.

For CA's advice on TV — see Your Wealth, available on broadcast channels in Ontario and on satellite across Canada, or see Money in the Bank, on your community cable channel.

Moneycare is general financial advice by Canada's chartered accountants. Lorraine Bell is a self employed financial consultant.



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