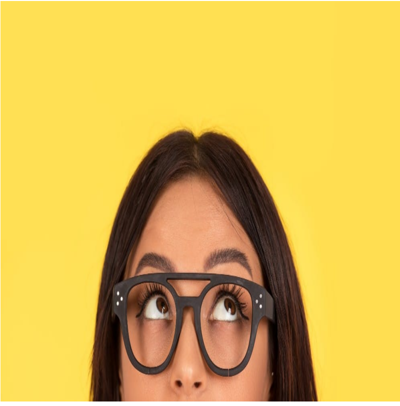

Buying a Home? Grab This $5,000 CRA Tax Break

Description

Did you know that the CRA offers a $5,000 tax credit to first time home buyers?

Called the "Home Buyers' Amount," the credit can save you big money come tax time. This tax credit isn't talked about much, but it's one of the biggest such credits available to Canadians. And virtually any Canadian buying their first home qualifies for it.

Housing in Canada is increasingly unaffordable. Credits like the Home Buyer's Amount are among the few ways to counter the rising costs. In this article, I'll be exploring how much you can save with the Home Buyer's Amount–along with other thoughts on real estate investing.

How much money you can save

The Home Buyer's Amount itself is $5,000 against the cost of buying a home. At today's prices, almost all Canadian homes cost enough to entitle you to the maximum amount.

At the standard 15% rate, a $5,000 credit saves you $750 come tax time. That's a big savings. However, if your income is so low that you won't pay $750 in taxes, then you'll save less than that. For example, if you only owed $600 in taxes before the credit, you would save $600. The Home Buyer's Amount credit is non-refundable, so it can't be used to trigger a cash payout.

Realities of buying a home

The Home Buyer's Amount is definitely a nice help if you're buying a home for the first time. But ultimately its effect is pretty minor. A $750 savings is only a drop in the bucket that is the cost of an average Canadian house. In 2020, the average Canadian house costs a staggering $607,000. If you're ready to pay that kind of price, then the Home Buyer's Amount will certainly help a little. But it's not so generous that it can turn an unaffordable house purchase into an affordable one.

Not ready to buy a home? Here's another investment to consider

If you're not ready to buy a home even *with* the Home Buyer's Amount in the equation, there are other options you can consider — particularly if you're buying a home just as an investment. If you want a house strictly to live in, you may have to take high prices on the chin. But if you just want to *invest* in real estate, there are much cheaper alternatives.

Specifically, Real Estate Investment Trusts (REITs).

REITs like **NorthWest Healthcare Properties REIT** (TSX:NWH.UN) are pooled investments that you buy like stocks. Similar to stocks, they're generally affordable on a per-unit basis. For example, NWH.UN units cost just $12.73 at the time of this writing.

There's another way in which REITs can be cheaper than direct real estate investments. That is, they can be cheaper relative to income potential. Because REITs trade in liquid markets like stocks, their prices are volatile. They're pretty strongly correlated with stocks, which creates buying opportunities in down markets. Such "bargains" are much less common in the realm of single family homes.

To return to NWH.UN for a minute: at one point this year, its price was down 43%. If you'd bought at that point, you'd have realized a *stunning* 12% yield–far better than the 5%-10% you'd pull out of a rental home. Today, the yield is down to a more modest 6.5%. While that's not as juicy as it once was, it still stacks up pretty well compared to owning a rental property.

And who knows? Maybe in the future there'll be another market panic that will enable you to buy NWH.UN at a 12% yield once more. With REITs, anything is possible.

CATEGORY

1. Dividend Stocks

TICKERS GLOBAL

1. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks

COMPANY NAME
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