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PRIVATE REITS
OFFERING TAX BENEFITS AMID CAPITAL GAINS UNCERTAINTY

Uncertainty surrounding the future of Canada's capital gains tax rules can make it an opportune time to initiate client conversations about tax efficiency.

Although still subject to Parliamentary approval, proposed changes to taxpayers' capital gains inclusion rate are set to be administered by the Canada Revenue Agency for the 2024 taxation year. Individual Canadians realizing capital gains in excess of $250,000 in a single year are effectively subject to a 66.67% inclusion rate, up from 50% previously, which is taxed at their marginal rate.

Shifts in the political landscape, including the recent prorogation of Parliament and a potential election, have complicated the amendment's introduction; however, it remains crucial for Canadian investors to seek strategies to minimize or offset the impact of new and existing tax rules. In doing so, many are recognizing the tax advantages of diversifying into private real estate investment trusts (REITs). Here are some ways that investors can leverage private REITs as a cornerstone of their tax-efficient portfolio.

RETURN OF CAPITAL

REITs are typically sought out by investors for their access to regular cash flow, which can come in the form of dividend payments and distributions. When received in non-registered accounts, such payments are fully taxed as income at the investor's marginal tax rate when received as cash. As such, paying a portion out as taxes can significantly hamper the impact of compounding returns.

However, REITs may classify some or all distributions as a return of capital (ROC), which can be particularly advantageous for taxable account holders. ROC payments allow investors to reduce the adjusted cost base of their investment by the distribution amount, up to the total of their initial capital. This enables investors to effectively defer their tax obligations from the year the distributions are received to when they redeem the investment. Certain REITs are structured to maximize tax efficiency by classifying all distributions as ROC.

Although capital gains don't come into the picture until an investor sells their REIT units, assuming a taxable account, they are taxed more favourably than regular income. Particularly when reinvesting distributions, ROC allows investors to retain more of their growth before eventually divesting. Investors in higher tax brackets may benefit most from deferring taxes on regular payments if they anticipate being in a lower tax bracket in the future.

PLAN-ELIGIBLE INVESTMENTS

On that note, one of the simplest ways to reduce an investor's tax burden is by leveraging popular registered investment plans like the Tax-Free Savings Account (TFSA), First Home Savings Account (FHSA), or Registered Retirement Savings Plan (RRSP). Depending on the account, growth in a registered plan can be tax exempt or deferred.

While registered accounts are designed to hold a wide variety of assets, the options narrow considerably when it comes to alternative investments such as private REITs. Investors seeking tax-sheltered cash flow and growth opportunities must seek out registered-plan eligible products.

DON'T OVERLOOK PRIVATE REIT TAX BENEFITS IN 2025

As the year progresses, helping your clients understand how capital gains impact their investments is more important than ever. Private REITs, like Equiton's Residential Income Fund Trust (Apartment Fund), can offer a highly tax-efficient solution for portfolio planning.

Eligible for registered accounts, the Apartment Fund currently classifies 100% of its distributions as ROC. Equiton's active management strategy — centred on acquiring, repositioning, and developing properties — positions the fund to continue delivering ROC distributions at the fund level well into the future.