Snapshots™

STARTING OUT:
ACCOMMODATION

NOW THAT YOU ARE OUT OF SCHOOL AND STARTING OUT IN A CAREER, YOU MAY NEED TO CONSIDER YOUR LIVING ARRANGEMENTS.

In the last few years, you have probably been living in residence or off-campus, or perhaps with your parents. While continuing to live at home is proving to be a popular choice with many graduates, you may be considering moving out and getting your own place. This presents you with two choices:

Buying your own house/condominium

Given the large, up-front and ongoing financial commitment required in buying a home, this is typically not a feasible alternative for most young people. However, if you are fortunate enough to have the financial means to take this step, ask me about the Snapshots "Home Ownership" resource.

Renting

This is usually the most practical choice for people moving away from home and there are a lot of factors that need to be considered when taking this step. The laws concerning rights and obligations of tenants are a provincial concern, and although there are many similarities across jurisdictions, there are certainly also differences and you should familiarize yourself with the laws pertaining to your province or territory. The Canada Mortgage and Housing Corporation (CMHC) has provided a useful summary of the legislation across Canada and the link is provided below.

This summary discusses issues such as:

- The requirement for a signed lease
- Deposits
- Key money (a finder's fee for being able to rent an apartment)
- Renewing a lease
- Terminating a lease
- Subletting an apartment
- Rent increases
- Evictions
- Landlords' rights

Co-Renting

An effective way to keep accommodation costs down is to share an apartment or house with another person or persons. Many people have employed this approach in their university or post-secondary lives and it can be a very positive and economical experience for all. However, if you are considering this type of arrangement, you need to approach it in a professional manner. This is particularly important if you are moving in with a person you don't know. A written agreement detailing terms is a very good idea and may avoid misunderstandings and friction in the future. Some of the questions that should be discussed and understood are:

- Who is responsible for paying the rent in a timely manner, and who is on the lease?
- How will the rent be divided up? A bigger individual living space may require a greater share.
- How will food expenses be shared?
- What will be the approach to guests?
- Will there be pets involved?
- How will telephone or other utility costs be shared?
- Are the tenants' schedules very different?

The Home Buyers' Plan (HBP)

The Home Buyers' Plan (HBP) lets you tap into your RRSP and can be very beneficial for the right home buyer. Essentially, the HBP allows you to borrow from yourself to finance your first home. Under the HBP, you can use the money in your RRSP(s) to make the down payment on a home without immediate tax consequences. This lets you reduce the amount of money you need to borrow from financial institutions at commercial rates. The downside is that while you are using the funds for your home purchase, they are not growing tax-free inside your RRSP. There are many specific rules relating to the use of the HBP. Here are some of them:

- Each person who qualifies can withdraw up to $25,000 from an RRSP or RRSPs. Therefore a couple can withdraw up to $50,000.

- The home purchased must be a 'first home', which generally means you have not owned a home in the last five years.

- To avoid taking this withdrawal into income for tax purposes, you are expected to repay the money to an RRSP over a maximum of 15 years at one-fifteenth (6.7%) of the amount per year. The payments are required to begin in the second tax year after the withdrawal. For example, if you withdraw $15,000 from your RRSP in 2009, you have to start paying $1,000 ($15,000/15) per year back starting in 2011.

- Any money not repaid according to the schedule is regarded as taxable income.

The Home Buyers' Tax Credit (HBTC)

If you purchase a home after January 27, 2009, you will receive a non-refundable tax credit of $750 based on $5,000 times 15%. Eligibility for the credit is essentially the same as for the Home Buyers' Plan and typically means someone (or their spouse) who has not owned a home in the last five years. The rules are more liberal where the homeowner is defined as disabled according to the Canada Revenue Agency (CRA) definition.

Home/Tenant Insurance

If you own a home, you should definitely have insurance to cover incidents such as fire, theft, and individual liability. There are different types of insurance available with varying levels of coverage; you should speak to an insurance specialist to understand the degree of coverage that is suitable for you. I can give you more details on the types of coverage available.

Many renters feel that they don't need property insurance since they don't own the residence, but it is certainly a good idea to purchase some. Two types of insurance are recommended: Liability and Contents. Liability insurance protects you if you or your guests cause damage to the building. Contents insurance covers your possessions that are lost or damaged. As a general rule, you should consider 'Replacement Cost' insurance, which will replace the lost or stolen good with a new item of the same material and quality. I have additional information on the types of coverage provided.

The following home/tenant insurance calculator will provide you with a quote for the sort of Home/Tenant insurance premiums you should expect to pay (just enter your postal code to begin), but you should always consult with a qualified insurance professional. It also pays to shop around.