



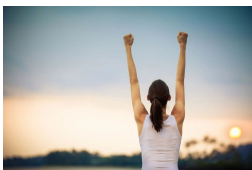
Sunil and Nita LLP

Tax and Business Advisors Chartered Professional Accountants



The Bank of Canada's growing list of worries

The central bank offered up plenty of evidence that its strategy is working. Inflation has eased, economic growth has resumed all while wages are recovering. But the bank also has a list of things that could quickly derail that progress — from mortgage renewals to population dynamics to conflicts abroad or wildfires in Canada. The large number of households renewing mortgages at higher rates and with higher payments in 2025 could curb spending and dampen economic activity and inflation more than expected. Economists have warned that a slowing real estate market has led to pent up demand across the country. Higher savings could be an indication of greater cautiousness among consumers as they wait for economic conditions to improve. It could also reflect reduced spending for those households anticipating higher debt repayments when they renew their mortgage. The timing and impact of government plans to unwind the rapid growth in non-permanent residents could affect the forecast for inflation and growth. Strong population growth has added to economic growth. But it has also driven up shelter costs, particularly rents. Our view remains that the Bank of Canada will ease policy two more times this year, finishing 2024 with a policy rate of four per cent.



Non-Arm's-Length Transactions

When property is sold between two persons there is an assumption that the price reflects “fair market value” (FMV). Fair Market Value (FMV) is the highest price, expressed in terms of money or money’s worth, obtainable in an open and unrestricted market between knowledgeable, informed and prudent parties acting at arm’s length, neither party being under any compulsion to transact. FMV is considered essential to accurately measure profits or gains to determine any net income tax impact. A key feature of FMV is that the parties to a transaction are “acting at arm’s length”. The purpose is to show that the terms of the transaction are fair, genuine, and reflect a transaction price that would have been determined had the two people been complete strangers solely

looking out for their own personal interests.

One of the most important inherent concerns, in terms of income tax policy, with respect to a transaction price is that it may be susceptible to manipulation with the express purpose of reducing income tax. Family members could sell property well below or well above FMV, other persons without family connection could collude in transaction to reduce the overall impact of income tax.

Considerable time could be spent on investing in such a matter, which would inherently compromise income tax compliance.

The resolution of these concerns is found throughout the ITA with references to FMV and, more importantly, references to “persons not dealing at arm’s length” or variations of those words.



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