Foreign Tax Credits

For taxation years commencing after November 12, 1981, income taxes paid to a foreign government that can reasonably be regarded as relating to an amount received or receivable from that government by any person or partnership will not be eligible for a foreign tax credit, but may be deducted in computing net income.

S. H. Kraayeveld

REAL PROPERTY

- Status of MURB program
- Limitation on deductibility of "soft costs"
- Reduced terminal losses on buildings
- Amortization of lease cancellation payments
- Reserves for unpaid sale proceeds
- Financing investment in real property
- Allocation of trust deductions

MURB PROGRAM

The MURB (Multiple-Unit Residential Building) program was officially terminated on December 31, 1981. With all the confusion created by the November 12, 1981 Budget, its modifications on December 18, 1981, and the introduction of a "new" Budget on June 28, 1982, it is not an easy matter to assess where things really are – particularly as they relate to the MURB program. To clear the air, the following are highlights of the MURB program status since the November 12, 1981 Budget:

- No extension of the MURB program deadline was granted beyond December 31, 1981. For a building to be eligible, installation of its footings or any other base support must have commenced on or before that date.

- Taxpayers can invest in a MURB after December 31, 1981 by acquiring an existing MURB from another taxpayer and still retain the ability to claim capital cost allowance against other sources of income.

- Interest on money borrowed to invest in a new or existing MURB will be fully deductible in 1982. It is open to speculation whether (as proposed in the December 18, 1981 modifications) interest costs of a first purchaser of a MURB, or of an interest in a MURB partnership, will be deductible without limitation beyond 1982 should rules be introduced to generally restrict interest expense deductibility. (See Interest Expense section)

- "Soft Costs" applicable to a MURB that qualified because the installation of its footings or other base support were commenced before 1982 will not be subject to the new restrictions on their deductibility.

SOFT COSTS

One of the attractive features of an investment in a MURB or other building was that anywhere from 15% to 25% of the project costs were characterized as non-component costs of the buildings or "soft costs" that were deductible as incurred for tax purposes. With such a significant portion of the project costs deductible currently as compared to the 5% per annum declining balance amortization rate available with respect to a building and its component costs, it is not surprising that the Government decided that this soft cost advantage was somewhat excessive. In general, the most significant soft cost was interest on construction financing, but also included are interest and property taxes relating to land, certain mortgage fees, promotion costs, certain development expenses, and legal and accounting fees.