

Your client, Judy Jetson, lives in a rented apartment in downtown Toronto. Back in 2012, she obtained a mortgage and purchased a rental income property in Toronto for \$600,000. She has since paid down the loan to \$450,000. She has deducted the interest on her mortgage against the rental income she has received from the property. The property has appreciated in value since the purchase and is now worth \$900,000. Judy is considering selling the rental property and, rather than paying off her loan, using the funds in one of two ways:

1. She may choose to leave the city and purchase 2 properties in Prince Edward County. She would keep one as a rental property and live in the other. Assuming the properties that she is looking to purchase are valued at \$400,000 and \$500,000. She has not yet determined which home she would live in and which one she would rent out.
2. She may use all of the proceeds to purchase a home in Toronto and give up being a landlord entirely.

Ms. Jetson would like to better understand the tax consequences of these possibilities so that she can make an informed decision.

Required:

Write a short (one page) memo explaining the tax policy regarding your client's issue. Be sure to consider the following:

- The tax rules that are relevant to their situation.
- You can make a recommendation to your client since they have yet to take any action.
- Your client will have limited understanding of income taxation, so you need to analyze the issue at a high level and then clearly describe any relevant tax implications of their actions in language that is appropriate to their level of understanding.

Grade:

This assignment is worth 10% of your final grade. The marks will be allocated as follows:

- 50% of the marks – analysis of tax issue (using facts from the case and your knowledge of tax rules)
- 50% of the marks – professional communication (including complete grammar and accurate spelling) at an appropriate level for the client

The assignment is due at midnight on Sunday, December 13th and should be submitted through Blackboard. You are permitted to upload as many versions as you need to before the due date but the last version will be graded.