

Condo Smarts November 9, 2022

Investments

Dear Tony: Our strata corporation is currently holding 1.2 million in a special levy fund, \$350,000 in our contingency, and we have \$200,000 in our operating surplus. None of these funds are invested and with increasing interest rates, owners are unhappy that we are leaving the funds dormant. We have been advised the special levy funds cannot be invested as we would pay tax on the interest, and the returns on the reserve fund are not worth the investment. This seems strange to us. Our project has been delayed because of a design and permitting problem and will likely not start for at least 1 year. How do we direct council to invest these funds? JJ R.

Dear JJ: Strata corporations are permitted to invest their contingency fund and special levy funds in one or more investment accounts within Canada provided they are eligible to be insured by the Canadian Deposit Insurance Corporation (CDIC), or the Credit Union Deposit Insurance Corporation of BC, or they are guaranteed by the government of Canada or a province. While other types of investments are also permitted under the regulations, these are the most secure investments and intended to limit the strata corporation's exposure to potential losses. Unless the strata corporation is operating and investing for commercial purposes, which is rare, the strata corporation does not pay taxes on interest earned on special levy or contingency accounts. You will receive a tax statement for your investments and this is filed with your annual tax returns. Short term redeemable investments, such as 1-year cashable GIC's, currently yield around 2.8-3% interest. Well worth the consideration. Longer term investments are much higher for 3 years at 5.1% and depending on the amount you may negotiate higher amounts. The challenge for special levy accounts is the management of the cash flow. If it appears you will not be accessing the funds for at least a year, or perhaps 50% of the funds this year, and the balance next, consider a portion of the investment at a higher yield. Cash management and emergency cash flow considerations must be balanced against the revenue returns. The decision to invest the funds is a majority vote of council, and if council are not willing to consider investment options, the owners can petition for a special general meeting and under the Act direct council by majority vote to proceed. Everyone is extremely cautious at the moment because of increasing interest rates; however, for investors it is a beneficial time to consider longer term returns. Strata councils must remember the investments must be in trust in the name of the strata corporation, which is, "in trust for the owners, strata plan ABC 1234". Interest earned must be returned to those funds. While you may use investment advisors, any fees or commissions you pay in addition that are taken from the interest must also be approved by the strata corporation as either part of the annual budget, or a 3/4 vote from the contingency or special levy funds. Your funds may not be pooled in any general investment accounts or with any other funds.

Tony Gioventu, Executive Director CHOA

Kindly note CHOA is a member-based, non-profit association. If your strata is not currently a CHOA member please consider joining – membership details are posted on our website at: <https://www.choa.bc.ca/about-choa/join-choa/>

COVID-19: To prevent the spread of COVID-19 CHOA staff may be working remotely. During this time we are online and available by phone and email to assist with your strata questions. Please stay safe and healthy.