Act like an American and deduct your mortgage interest

Follow these steps to effectively get a tax deduction on your mortgage interest.

By Sarah Efron | From MoneySense Magazine, April 2013
Tags: mortgages, Tax Centre 2013, taxes

If you're jealous of your American cousins who get a tax deduction for their mortgage interest, use this trick to mimic the effect. For this example, Scott Plaskett, a financial planner at Toronto's Ironshield, assumes you have a $100,000 mortgage as well as $100,000 in non-registered investments.

- Cash out your non-registered investments and use them to pay

* off your mortgage.
* Get a line of credit secured against your house for $100,000, then buy back the investments. Ask a tax pro about limits on repurchase timelines.
* Loans on investments are tax-deductible, so you can write off your interest each year. If you're paying 3.5% on the loan, you can deduct up to $3,500 of interest annually, saving about $1,154 if you're in the 30% tax bracket. Each year the loan is held, you can claim a deduction. Make sure your investment return exceeds the cost of your loan. We recommend you consult a professional for help with this type of strategy.

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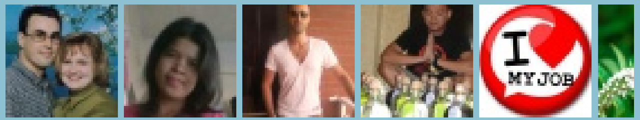

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WDavis · *1 week ago* 0

The Smith Manoevre is not "very complex" ...that is w hy Fraser championed it for all Canadians during his lifetime. It is a simple strategy but that does have risk...but that is part of the w hole risk/rew ard scenario.

Reply

Compliance Expert · *1 week ago* 0

I agree w ith the previous tw o posters - there are costs and a level of risk associated w ith this strategy, and it is NOT compliant to give blanket advice like this!
Any client considering this w ould have to understand:
a) the tax consequences associated w ith cashing out non-registered investments
b) the fees associated w ith doing so (DSC fees if they are in mutual funds, the commissions to sell and buy w ith equities)
c) the clients w ould have to 'qualify' from a risk perspective to buy back non-registered investments w ith 'borrow ed' funds.
I personally think the Smith Manoeuvre is a great idea, and have done it myself and recommended it to many of my ow n clients, HOWEVER it is important to ensure this strategy is appropriate for each person on a case by case basis, and to fully understand and ensure the client understands all fees and tax consequences associated w ith doing this.

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Joe Carpenter · *1 week ago* 0

The key to making mortgage interest deductable is to deal w ith a professional like myself w ho does this all the time. There are many loopholes that Canada Revenue Agency can use to deny your interest deduction

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Interested · *1 week ago* 0

Can this w ork for someone w ho is buying a house and needs the money either from a mortgage or some loan?

Reply

David · *1 week ago* +4

Strange article for MoneySense to publish. First, the headline is misleading - if you have a mortgage you w ouldn't have the equivalent sitting in an investment. Most people w ould have already pay off the mortgage. What this article is really proposing is to borrow money to invest. That's a very high risk endeavor. The article only mentions the tax advantage of borrow ed money, but does not mention the tax cost of the investment returns. All the risk on on the individual to be sure his investment return is significantly greater than the cost of borrow ing.

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Annoyed · *1 week ago* +3

There is far too little information here to even call this an article. The Smith Manoevre has been around for years and is very complex and hard to understand, let alone apply properly. And w ho has 100K in investments and still has a 100K mortgage....

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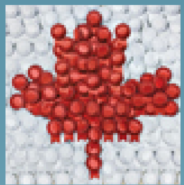

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