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## 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



This article was first published in the April 2013 issue of MoneySense.

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- 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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A banner with a blue background. The text 'MoneySense' is in a large, white, sans-serif font. Below it, 'ON iPad' is written in a smaller, black, sans-serif font. To the right, there is a black box with a white icon of an iPad and the text 'Available on the App Store' in white.

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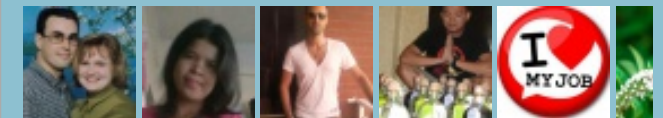
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A banner with a yellow background. On the left, there is a book cover for 'MoneySense Guide to Investing in Stocks'. The book cover has a red 'NEW!' sticker and the text 'HOW YOUR OWN STOCKS CAN MAKE YOU RICH'. To the right of the book, the text 'GROW RICH WITH STOCKS' is written in large, bold, black, sans-serif letters.

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WDavis · 1 week ago

0

The Smith Manoeuvre is not "very complex" ...that is why 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 whole risk/reward scenario.

Reply



Compliance Expert · 1 week ago

0

I agree with the previous two posters - there are costs and a level of risk associated with this strategy, and it is NOT compliant to give blanket advice like this!

Any client considering this would have to understand:

- a) the tax consequences associated with cashing out non-registered investments
- b) the fees associated with doing so (DSC fees if they are in mutual funds, the commissions to sell and buy with equities)
- c) the clients would have to 'qualify' from a risk perspective to buy back non-registered investments with 'borrowed' funds.

I personally think the Smith Manoeuvre is a great idea, and have done it myself and recommended it to many of my own 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 with doing this.

Reply



Joe Carpenter · 1 week ago

0

The key to making mortgage interest deductible is to deal with a professional like myself who 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 work for someone who 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 wouldn't have the equivalent sitting in an investment. Most people would 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 borrowed money, but does not mention the tax cost of the investment returns. All the risk on the individual to be sure his investment return is significantly greater than the cost of borrowing.

Reply



Annoyed · 1 week ago

+3

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

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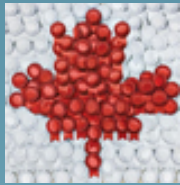
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