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Canadian homeowners are green with envy over the fact our neighbors to the south are allowed to deduct the interest paid on their mortgages from their taxes. Is it possible to do the same thing here?

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April 09, 2008

I received an elegant little flyer in my mailbox the other day. It was a small glossy fold-over, and it had a quality look and feel to it. The only text on the front flap of the flyer asked me a provocative question: "Is your mortgage tax deductible?"

The inside of the flyer told me that I could learn how to collect tax refunds from my mortgage. "Canadian homeowners are entitled to collect Tax Refunds from their mortgage payments under Canada Revenue Agency (CRA) guidelines for 'Cash Damming'. By following CRA's specific guidelines for borrowing and investing, you will claim thousands of dollars in Tax Refunds every year from your mortgage." The small flyer mentioned "Tax Refund" five more times, and twice pointed out that I could use my Tax Refund to pay off my mortgage faster. That's pretty exciting, if you ask me. If I wanted to know more, I could attend a seminar offered by a mortgage broker.

Now, on the face of it, who wouldn't want to know more? If you didn't already know something about this topic, this would have to be very compelling stuff. The biggest single expense of many Canadian families is their mortgage payment, and we've all been making those mortgage payments with after-tax dollars. Many a Canadian has looked across the border in envy at the tax deductibility that Americans enjoy on their home mortgage interest. If it turns out that we can be getting Tax Refunds from our mortgage payments too, well, that's just a no-brainer.

As it happens, I am quite familiar with this topic and strategy, so I can spare you the inconvenience of having to leave the comfort of your home to discover how this works. In fact, I'm going to provide you with all the essential information that you really must know about Canadian mortgage deductibility and Tax Refunds, all in the very next paragraph! How can I possibly do that? By using an enhanced information conveyance technology I like to call No Baloney™. Ready? Here's what you really need to know about Canadian mortgage deductibility and Tax Refunds:

In Canada, when you borrow money to buy your home, you can't deduct the interest. When you borrow money to make certain investments, you may be able to deduct the interest. (See your tax professional for details.)

There. Now that we've covered all the really important stuff, let's review some of the details. First of all, nothing about buying your personal residence is tax-deductible. You don't get to deduct your mortgage interest, there are no special tricks that have escaped your notice, and you will not be getting "Tax Refunds" from your mortgage payments. Period.

That being said, when you borrow money to make investments which have a reasonable expectation of income, you may be able to deduct the interest on the debt. So if you use your home as collateral when you borrow money to invest, you may be able to deduct that interest expense from your income taxes. You could, therefore, have a mortgage with interest that is partially or entirely tax deductible. However, it's very important to remember two things: (1) No matter how you twist it, turn it, or wordsmith-manoeuvre-it, the money you borrow to buy your principal residence is not tax-deductible; (2) The only way the interest on your home mortgage can be tax-deductible is if you borrow against the equity you already own in your home, and use that money to investment.

The reason it's so very important to be clear about this issue is that borrowing to buy a home is something that most people must do in order to buy a home, and as long as they can afford their mortgage payment, they're psychologically comfortable doing so. They generally don't worry that their money is at risk. In fact, they feel a sense of security about the equity they are building as they pay the mortgage down.

Borrowing to invest, on the other hand, is not something that anyone needs to do, and most people are not psychologically comfortable with it. In order for borrowing to invest to make sense, the average long-term, after-tax return on the underlying investment has to be higher than the after-tax interest rate on the loan. That invariably means taking on investment risk. And for most people, tolerating investment risk is already sufficiently challenging without the added stress of knowing that those investments were made with borrowed money. Think about the recent gyrations in the stock markets, and consider how using leverage might change your emotional response to the hysteria.

Don't get me wrong - I'm not picking on leverage as a concept. Using "other people's money" is an age-old investment strategy, it absolutely has its place as a financial planning strategy, and I've used it myself.

What I am picking on is the packaging of leverage - a strategy that inherently adds risk to investing - as a clever and heretofore overlooked way to get tax benefits on your home mortgage.

Let's be No Baloney™ clear: For some people, borrowing money to invest may be an appropriate investment strategy. But borrowing money and investing it because you can get a tax deduction on the interest expense is a ridiculous tax strategy.