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如何操作让房屋利息免税

How to make the mortgage interest deductible for your rental property

Example:

1) Jenny owns a home in Toronto worth $1,000,000. She has a mortgage of $400,000.

2) Jenny wants to move to a larger home in the suburbs and would like to keep and rent out her Toronto home.

3) She obtains a home equity line of credit secured against her Toronto home in the amount of $200,000, which she uses to make a down payment on her new primary residence.

4) Without consulting her accountant, she deducts the interest paid on the $400,000 mortgage and $200,000 home equity line of credit on her Toronto home. Upon an audit, the Canada Revenue Agency (CRA) disallows the interest deduction because the mortgage and home equity line of credit were never intended to be used for buying income-generating investments.

5) You see, according to the CRA's tracing rule, borrowed money must be directly traced to its initial use in order to determine whether interest paid is tax deductible. Jenny's $400,000 mortgage was initially used for her primary residence and her $200,000 Home Equity Line of Credit was solely used to purchase her new primary residence in the suburbs. Neither of these uses has anything to do with earning income from real estate, which makes the interest paid on these loans non deductible for tax purposes.

How to make Mortgage Interest and Home Equity Line of Credit Tax Deductible:

Had Jenny consulted with her accountant, she would have followed these 6 steps to make the interest paid on her $400,000 mortgage and $200,000 Home Equity Line of Credit tax deductible:

1) Jenny sells her Toronto home to her parents for market value, $1,000,000.

2) In exchange for receiving the Toronto home, Jenny's parents enter into a promissory for $600,000 payable to Jenny and assume her mortgage of $400,000.

3) Jenny agrees to buy back the Toronto home from her parents for $1,000,000 and gets a mortgage for $600,000 from her bank to help finance this purchase. Jenny owes her parents the balance of the purchase price, $400,000.

4) Her parents receive $600,000 on closing from Jenny. Of the $600,000 they receive, $400,000 is used to repay their mortgage of $400,000. The remaining $200,000 is given to Jenny as a partial repayment of the $600,000 promissory note owing to her.

5) The promissory notes between Jenny and her parents are offset and extinguished.

6) Jenny rents out her Toronto home. The interest she pays on her new $600,000 mortgage is tax deductible. This is because she used the mortgage money to purchase a rental property, being her former Toronto home. Jenny uses the remaining $200,000 that's now in her pocket to make a down payment on her new primary residence.

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	Jenny	Jenny's Parents
Sale Price	$1,000,000	$1,000,000
Mortgage	$600,000	$400,000
Promissory note	$400,000	$600,000
Cash Balance	**$200,000**	

So Here's the Tip:

When changing the use of your primary residence to a rental property, make sure you plan property to be able to deduct the interest paid on your mortgage for tax purposes. Make sure you also know how to properly prepare a tax return for rental properties.

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Reference: from the web resource of Madan Chartered Accountant