



**B L Garbens Associates Inc.**  
Independent Financial Advice  
Professional • Personal • Proactive

# *inBrief* financial information you can use

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## PRESIDENT'S MESSAGE



*Reducing the fees that you pay is a powerful consumer incentive regardless of which area of life you consider. You might even be tempted to reduce that super-sized real estate commission yourself by selling your home directly and pocketing the fee. Is it a smart move? Read on and decide for yourself, and scoop up some tips on deducting your interest charges too.*

*In the meantime, take some time to enjoy the wonderful colours of Indian summer. It only happens once a year.*

*Barb*

Barbara L. Garbens  
MBA, RFP, CFP

## Interest Deductibility – Do You Know the Rules?

Most clients are aware that, if they borrow money for investment purposes, they can deduct the interest they pay on the loan. However, this is an area that has been under increasing scrutiny by the Canada Revenue Agency (CRA), so it behoves us to make sure that we play by the rules. Basically, the money borrowed must be used for producing income from a property or a business.

If you're borrowing money both for investment and for personal purposes such as financing a renovation, it's essential to keep these transactions separate. Don't use the same line of credit for both purposes – set up a separate credit line strictly for investment so you (and CRA) can easily determine exactly how much interest you are eligible to deduct.

Also remember that borrowing money to invest in an RRSP is no longer tax-deductible, so this type of borrowing should be kept separate as well.

The question of what is considered income was discussed in a case (Ludco) that made it to the Supreme Court in 2001. Previously, CRA had not considered capital gains to be income. Therefore, someone who borrowed money to buy non-dividend producing stocks or mutual funds ran the risk of having their interest deduction denied. Now, however, as long as there is some potential of income from the investment, however small, the interest paid on the loan will be allowed as a deduction. So, if it's possible that your investments may pay dividends in future, you can deduct your loan interest, even if you have no current investment income to offset the interest expense.

The Singleton case was considered by the Supreme Court around the same time as Ludco. This case dealt with the acceptability of converting non-deductible



debt to deductible debt. The classic example of this strategy is where a taxpayer sells investment assets to pay off his mortgage, and then borrows money to buy back the same investments. While the Singleton case was decided in favour of the taxpayer, CRA has not given up.

A more recent case on the same strategy as Singleton (Lipson) was successfully challenged by CRA under a provision of the Income Tax Act known as GAAR – the general anti-avoidance rule. GAAR is a provision of last resort that CRA will use when they feel that a transaction is being undertaken strictly to avoid tax, rather than for any legitimate business purpose.

On the other hand, in a case very similar to Lipson (Overs), GAAR was determined not to apply. Obviously, this is an area where taxpayers must proceed with extreme caution.

If you're considering any of these strategies, please give us a call so we can help you through this potential minefield.

# For Sale by Owner

With the dramatic rise in real estate prices in the GTA, many homeowners may be considering cashing in their chips and taking the opportunity to downsize their living quarters. But thinking about the real estate commissions they might have to pay has led many to decide to sell their own home rather than using the services of a realtor. What's involved in doing this, and is it a wise decision?

Certainly, it's a lot cheaper, when you consider the fact that typical full-service real estate commissions can be as high as 6%. On the sale of a \$700,000 home, that works out to a charge of \$42,000.

Depending on how you go about selling your home independently, you could pay as little as \$49 for a basic 6-month text listing on [CanadaHomesForSale.ca](http://CanadaHomesForSale.ca) or as much as \$500 for a full-service package.

The various websites that specialize in providing marketing support to homeowners who want to go the "do-it-yourself" route certainly provide a valuable service. But, make no mistake; marketing is only one small piece of the whole process of selling a home.

First of all, think about pricing. Having your home competitively priced from the first day on the market helps you to sell it quickly and obtain the best price available. Many homeowners who go it alone overprice their homes, resulting in the home languishing on the market for an extended period of time. Then, it becomes more difficult to attract buyers, who become suspicious that there is something wrong with the home.

Secondly, selling a home can be a time-consuming activity. You may want to host an open house, and you will certainly



need to actively follow up with potential buyers who have seen or inquired about your home.

You may also need to brush up on your negotiating skills. Closing the sale will require negotiating with the buyer, who is in all likelihood represented by an experienced real estate agent.

Many real estate agents will not be interested in showing your home to their clients unless you offer a selling commission, usually around 3%. Planning to do this increases your costs substantially.

So, is selling your own home independently the right thing to do? Only you can decide. But be aware that having the internet listing is just the tip of the iceberg – there's lots of work ahead of you! Check out the sidebar for some resources to help you out.

## Resources for Selling Your Own Home

[www.peartreehomes.com](http://www.peartreehomes.com)

Based in London, Peartree Homes is a home marketing firm that has been in operation since 1986. For a flat fee, Peartree will work with their clients to prepare advertising, website listing, office assistance and ongoing support. For an additional amount, they can arrange for a professional appraisal to help you establish the value of your home.

[www.CHFS.ca](http://www.CHFS.ca)

Canada Homes for Sale offers multiple levels of service, with the top level including real estate signs and a local newspaper listing as well as website exposure.

[www.nationalforsaleorrent.ca](http://www.nationalforsaleorrent.ca)

Another Canadian site offering listings across the country.

[www.housemaxx.ca](http://www.housemaxx.ca)

An international home marketing firm offering multiple levels of service, ranging in price from \$99 to \$399.

## MATTERS OF INTEREST

### Year End Tax Planning Tips

- Make the following payments by year-end in order to claim a deduction: charities, investment counsel fees, professional memberships and political contributions;
- Make RESP contributions for children or grandchildren by December 31st
- Consider deferring the tax from the exercise of stock options to a future year
- If you turn 69 in 2005 and still have earned income, consider making an advance RRSP contribution by year-end (December 31)
- Consider tax loss selling to offset capital gains realized during the year
- Consider waiting until next year to purchase mutual funds outside your registered plans to avoid paying tax on year-end distributions

Call us to discuss whether any of these strategies are appropriate for you.



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