

## Smith Manoeuvre Tax Health Check

Twelve questions on the tax side of borrowing to invest. Take it online for a health score out of 100 and what to do about each flag.

● Green: no flag ● Amber: worth a look ● Red: fix first ● Note: not a problem **Any red, or three ambers, takes you out of the green.**

| #  | QUESTION                                                                                                                                                                                            | GREEN                                                                            | AMBER                                                                            | RED                                                 |
|----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------|-----------------------------------------------------|
| 1  | <b>Who owes the line, and whose name are the investments in?</b><br>Decides who claims the interest. Keep the owner paying it.                                                                      | One person owes and owns; or joint, in equal shares. Both owe, one owns: a note. | One owes, the other owns; no record; not sure                                    |                                                     |
| 2  | <b>How does borrowed money get from the line to the investments?</b><br>The deduction depends on tracing each borrowed dollar.                                                                      | A clearing account used only for this, or straight to the investments            | Not sure                                                                         | Through the chequing account your pay goes into     |
| 3  | <b>Has the line ever paid for something personal, like a card, a bill or the house mortgage?</b><br>Personal use makes part of the line non-deductible, and paying it back doesn't reset the split. | Never                                                                            | Once, then paid back or moved to the mortgage side; not sure                     | More than once, or not fixed                        |
| 4  | <b>Has the line, or anything bought with it, gone into an RRSP, TFSA, FHSA, RESP or RDSP?</b><br>Interest on that part isn't deductible.                                                            | No                                                                               | Not sure                                                                         | Yes                                                 |
| 5  | <b>Do the investments pay, or reasonably expect to pay, income such as dividends or distributions?</b><br>A holding that can only produce a capital gain doesn't qualify.                           | Yes, even small amounts                                                          | Little or nothing now, but not ruled out; not sure                               | Says it won't or can't (for example gold or crypto) |
| 6  | <b>How is the line's interest paid each month?</b><br>Paying it with a draw is how the strategy normally runs.                                                                                      | A draw through the clearing account, or the owner's own money                    | Added to the balance unpaid; the other spouse's pay or a joint account; not sure |                                                     |
| 7  | <b>Since the investing started, has the mortgage been refinanced, moved lender or moved home?</b><br>Each balance keeps its purpose. Your first switch into a readvanceable mortgage doesn't count. | No; or the investment balance moved on its own; or new money came out separately | The investment balance was combined with other debt; not sure                    |                                                     |
| 8  | <b>Does the setup involve a rental, a suite or self-employment?</b><br>Not a problem. It changes how the interest is split and claimed.                                                             | No. A suite, a cash flow dam or a suite being built is a note.                   |                                                                                  |                                                     |
| 9  | <b>Is any of it held through a corporation or trust, or does the line lend to your own company?</b><br>Not a problem in itself, but it brings its own rules.                                        | No; or yes, and an accountant has reviewed it                                    | Yes, not reviewed; not sure                                                      |                                                     |
| 10 | <b>Have investments been sold, or paid a return of capital, and where did the money go?</b><br>Regular dividends and income are yours to use. This is about sale proceeds and return of capital.    | Nothing; or reinvested or onto the line. A debt swap is a note.                  | Onto the house mortgage first; not sure                                          | Some or all was spent                               |
| 11 | <b>Do you keep monthly statements for every account, and a record of what each draw paid for?</b><br>It's on you to show how the borrowed money was used.                                           | Both; or statements only, if every account does nothing else                     | Statements only, otherwise                                                       | Neither                                             |
| 12 | <b>Does whoever prepares your return know about the strategy, and claim the interest in the right place?</b><br>Investment, rental and business interest go on different lines.                     | Yes                                                                              | Not sure; they don't know yet                                                    |                                                     |

If you'd like a CPA to look at it

### Smith Manoeuvre Setup Consult

A one-time review of who borrows, who owns, how the money moves, what gets claimed and the exit. A written memo you keep.

\$750 standard. \$1,250 with a rental or cash flow dam, a suite, more than one lender, a debt swap, unequal spouses, or a strategy already running. Plus applicable sales taxes.

### Tracing Rebuild

For a line that's paid for something other than investing, or a trail that needs rebuilding. We work out the deductible balance and interest month by month.

\$595 for one line and up to three tax years. \$950 for up to six years, or with two people's shares, a rental or suite, more than one lender or a combined refinance. Plus applicable sales taxes.