The employee and income property

An employee, just like a self-employed worker, who owns or acquires an income property, may use a different version of "cash damming" to convert non-deductible residential mortgage interest into deductible interest.

In this situation, the person only uses part of the rental income that would usually pay operating expenses (taxes, insurance, maintenance, mortgage, etc.) to make an extra mortgage payment on his or her personal residence. And like John in the previous example, once this additional payment is made, the property owner would then use a line of credit to pay current expenses on the income property.

And because the money borrowed from the line of credit will have been for business purposes, the additional payment would gradually convert non-deductible interest (residential mortgage) into deductible interest (line of credit for business).

In the end, the total savings are huge!

A few recommendations

Since there are other planning strategies to maximize the tax benefits of "cash damming," consult a professional who will set-up a strategy that's perfectly suited to your needs, taking into account other aspects, including:

- Family succession regulations
- Personal and professional expenses (e.g., vehicle)
- GST and QST collected on your professional sales
- Spouses who are co-owners

RE/MAX

Your RE/MAX broker

This information leaflet has been prepared by RE/MAX Québec inc. in collaboration with Pierre Vary, Financial Advisor, Investors Group Laval.

As part of the ruling no. 2002-018052, the CCRA (Canada Revenue) has confirmed the validity of the "cash damming" technique.

NB: This document does not constitute legal advice and should not be interpreted as such. This information is based on current tax legislation as of October 1, 2009.

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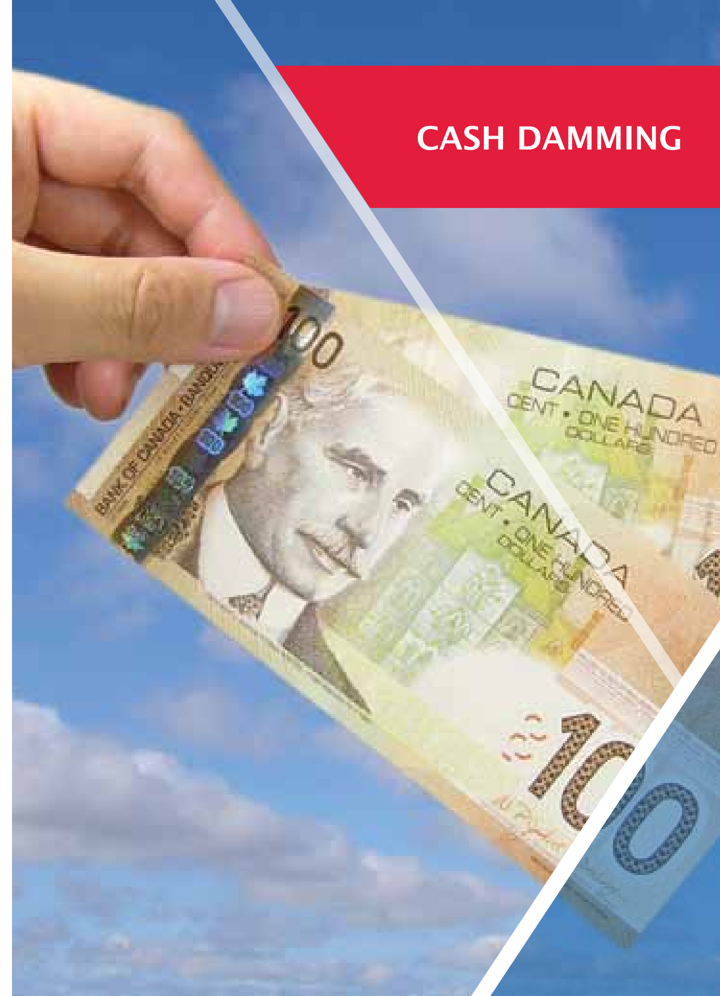

CASH DAMMING

How can you reduce your mortgage rate?

RE/MAX

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What if the mortgage interest on your home was tax deductible?

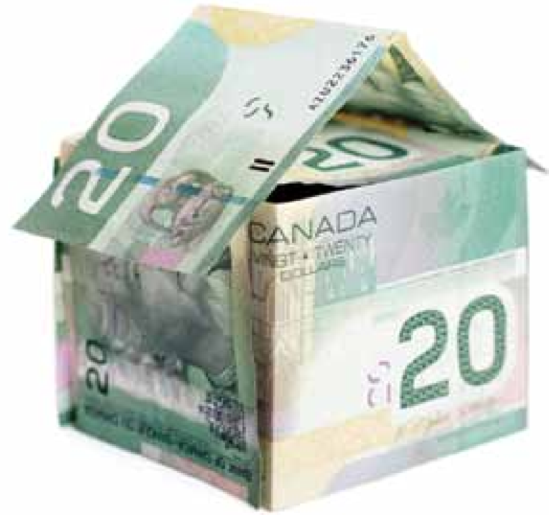
It's possible if you're self-employed and non-incorporated!

A Supreme Court of Canada decision, along with a new Canada Revenue administrative position, allows you to use a technique known as "cash damming" to reduce your income taxes by converting your home's non-deductible mortgage interest into deductible interest...

Usually, non-incorporated self-employed workers use their gross revenues (business income) to pay their day-to-day operating costs and finance their large personal expenses, such as the mortgage on their private residence.

Using the technique of "cash damming," the same workers can use the gross income from their business to accelerate payment of their personal mortgage and finance 100% of their operating expenses. They gradually convert the non-deductible interest (mortgage) into deductible interest (borrowing for the business).

WHAT IS CASH DAMMING?



The numbers speak for themselves...

This table shows that anyone who amortizes their residential mortgage of $150,000 (at 6%) over 20 years can, over time, deduct from their income taxes the impressive sum of **$106,388**!

Amortization Period

Mortgage	10 years	15 years	20 years	25 years
$100,000	$32,781	$51,179	$70,925	$91,942
$150,000	$49,172	$76,768	**$106,388**	$137,913
$200,000	$65,562	$102,358	$141,850	$183,884
$250,000	$81,953	$127,947	$177,313	$229,855

For example, with a 45% income tax rate, the taxpayer will end up $47,875 richer after taxes!

Plus, the cost of this strategy varies from very little to nothing at all! **So, don't wait!**

John's story

John is a self-employed and non-incorporated professional with $75,000 in yearly business expenses (rent, salaries, supplies, etc.) that he has been paying from his gross business income of $200,000. John is also purchasing a new home with a $150,000 mortgage.

With the "cash damming" technique, John will use part of the gross revenues he normally uses for business expenses to make an extra mortgage payment on his personal residence.

Then, his financial institution will allow him to use a line of credit for an amount equal to the extra mortgage payment. So, John can pay his business expenses from his current line of credit.

And since the money borrowed from the line of credit will be for business expenses, John will then deduct the interest on that amount from his income. Thus, he will have converted non-deductible interest (residential mortgage) into deductible interest (line of credit for business).

With annual business expenses of $75,000, John will take just 2 years to **completely** convert his initial $150,000 mortgage into a line of credit mortgage, at the same time **making the interest deductible for the remaining term of the debt.**