

CARRYING CHARGES AND INTEREST EXPENSE DEDUCTIBILITY

Interest Expense

- Expenses incurred to generate income from property and a business are deductible
- There needs to be a “reasonable expectation” of earning income (therefore, no income needs to be generated in reality to be able to deduct the expenses)

What is deductible and what is not deductible?

- Interest incurred on borrowed funds to invest in common shares are deductible even if these shares pay no dividends; this is because there is still a “reasonable expectation” of an increase in the dividend rates
- Interest incurred on borrowed funds to invest in assets for capital appreciation (i.e. capital gains) only are not eligible for deduction (a good example is investing in a vacant land for capital gains)
 - In past court cases, even where the property income (like dividends and interest) were inconsequential compared to the Capital Gains, the supreme court still allowed the interest to be deducted in these cases citing that the tax act only requires a reasonable expectation of earning some income
- Interest incurred on purchase of personal properties are not deductible
- For these expenses to be deductible you need to prove to CRA that the borrowed funds were used to produce property or business income

Carrying Charges

- Carrying charges include things like: safety deposit fees, management fees, custody fees, accounting fees incurred to generate property income
 - These fees must be paid to a person whose principal business includes the administration or management of shares or securities for it to be deductible
 - **Some changes were made to these deductions in the 2013 federal budget with respect to safety deposit fees**
 - Current (before 2013) tax law allows the deductibility of safety deposit fees incurred in order to earn property income (i.e. renting a safety deposit box to safe-keep investment documents)
 - The government is arguing that since electronic record keeping has become the norm, taxpayers are likely using safety deposits for personal reasons, rather than for income-earning purposes
 - Therefore, the cost of renting safety deposit boxes will no longer be deductible for tax purposes starting for taxation years beginning after March 20, 2013
- Commissions paid for buying and selling securities are not deductible
 - Commissions incurred on purchase of shares are added to the ACB
 - Commissions incurred on sale of shares are reduced from the proceeds (resulting in a lower capital gain)
- Management fees are generally fees paid to a person for one or more of the following services:
 - the custody of securities,
 - the maintenance of accounting records
 - the collection and remittance of income, and

- the right to buy and sell on their own judgement on behalf of some clients without reference to those clients
- carrying charges are claimed on line 221 of your federal jacket; and information is entered in Schedule 4
- Administration fees you paid for your RRSP or RRIF are **not deductible**

Fees paid for investment advice (this is also a type of carrying charge)

- Fees paid for advice on buying or selling a specific share or security can be deducted by the taxpayer
 - The fees must be paid to a person whose principal business is advising others whether to buy or sell specific shares
 - claimed on line 221 of your federal jacket; and information is entered in Schedule 4

Legal and Accounting Fees:

- Legal and accounting fees incurred to earn property or business income is deductible
- Fees incurred to prepare income tax returns are deductible provided that the taxpayer earns some property income
- You can also claim fees paid to have someone complete your tax return if the following are met:
 - you have income from a business or property;
 - accounting is a usual part of the operations of your business or property; and
 - you did not already use the amounts claimed to reduce the business or property income you reported
- Expenses are claimed on line 221 of your federal jacket; and information is entered in Schedule 4