FINANCIAL POST

Jonathan Chevreau
# WEALTHY BOOMER

# Tax deductible mortgages are worth the hassle
## Revenue unlikely to challenge if done properly
**BY JONATHAN CHEVREAU, FINANCIAL POST** JUNE 16, 2009

PETER J. THOMPSON / NATIONAL POST

**With a little bit of extra work, Canadians are able to deduct their mortgage interest.**

With a little bit of extra work, Canadians are able to deduct their mortgage interest.

**Photograph by:** Peter J. Thompson, National Post, Financial Post

Unlike Americans, who enjoy a sweetheart deal with the tax authorities in that their mortgage interest can be deducted from their income taxes, Canadians have to go through hoops in order to accomplish the same thing.

The so-called Smith Manoeuvre, popularized first in British Columbia by Fraser Smith in a book of the same name, has spread across the country.

[Subsequent editions were titled Is Your Mortgage Tax Deductible?]

While not radically new conceptually, Smith developed and packaged a variation on the standard tax-permissible strategy of selling off non-registered securities; using the proceeds to pay off the mortgage; then reborrowing to repurchase the securities, thereby creating legally sanctioned tax-deductible debt.

Now one of the few major competitors to Smith -- the TDMP or Tax Deductible Mortgage Plan -- has been named one of Canada's fastest-growing companies by Profit magazine. TDMP ranked 88th on the 21st annual Profit 100 ranking.

TDMP CEO and founder Sandy Aitken said in an interview that his strategy is "similar, but different" than the one developed by Smith, with whom he once worked.

The new wrinkle Aitken introduced is a $39 per month fee charged to homeowners, a fee which is itself tax-deductible. For this, TDMP takes on all the back-office work and saves the homeowner the bother of having to move the money around every month in order to make their mortgage payments and purchase securities.

The fee is considered a carrying charge for administration of income from investments.

Smith and TDMP are the two main players with a national presence, although there are increasing numbers of independent financial advisors and mortgage brokers building regional books of business that revolve around a similar strategy.

"It's becoming a more popular strategy for a certain class of homeowner: this is for the top 25%, homeowners with 50% loan to value, good credit and good income and jobs."

Last year, TDMP generated $2.2-million in revenue. Aitken says 12,000 homeowners have taken TDMP's series of public seminars on the strategy since the company was founded.

"We've taken over $1-billion of mortgage applications since we started." Sales are particularly strong in Vancouver, Calgary and Toronto.

Unlike Smith, who got plenty of media attention from his self-published book, Aitken has found himself too busy to write a book about his variation on the scheme, although "I've been mulling it over."

As I've written a few times since Smith came on the scene, Canada Revenue Agency has little reason to challenge these strategies if they're properly implemented. Aitken says the Lipson decision that came down in January of this year was a "big win," since the courts were unanimous in their support for the right of homeowners to "realign their balance sheets."

Generally, if they wish to behave tax efficiently, people should borrow money to invest and spend their own money -- not the other way round, Aitken says.

While these strategies do involve a degree of leverage, homeowners should realize the very act of buying a home with a mortgage is itself an act of leverage, Aitken says. In effect, paying the monthly mortgage is a forced monthly savings program. Only in the past few years has it really been possible to service a mortgage and get a tax advantage along the way, he says.

Smith's technique basically involves combining a mortgage with a line of credit from another institution, then writing cheques which go back and forth between the banks. Now there are multi-component readvanceable secured lines of credit which are technically not mortgages, Aitken said.

Three such products are the FirstLine Matrix Mortgage, Scotia STEP and National Bank All-in-One. Manulife has a similar product, but Aitken prefers to use products that are available to mortgage brokers with whom his firm provides tax advice. "The big difference is between a bank branch and a mortgage broker. A bank branch won't provide tax advice to homeowners. That's what we do differently."

The technical term for the TDMP approach is "cash damming," which involves a streamlined cash flow management system and a trained network of financial advisors, mortgage brokers and accountants.

Homeowners wondering if the product may be suitable can take the TDMP Test at www.tdmp.com.

jchevreau@nationalpost.com -
Jonathan Chevreau is the author of Findependence Day and blogs at www.wealthyboomer.ca