

Tax Tip
Week of May 16, 2011

Interest Expense

One of the principles of income tax is that interest expense is a deduction to earn investment income, excluding the various tax sheltered plans such as RRSPs and TFSA's. Interest expense used to finance capital gains is normally not deductible. Thus if an individual borrowed funds to purchase a stock that paid a dividend, the interest would be deductible. However, if the stock does not pay a dividend, then it follows that interest should not be allowed to purchase such a stock.

CRA has an administrative policy that allows a deduction for interests paid on stocks that do not pay dividends if the possibility exists of a future dividend payment. As a result, borrowing to purchase stocks that do not pay dividends will still result in deductible interest expense.