

Tax Tip
Week of July 12, 2010

Interest Expense on Capital Assets

If funds are borrowed to purchase an asset, the interest on the loan will be deductible if the asset is capable of producing income. For example, a building can produce rental income, a GIC generates interest income and a stock could pay dividends. It is CRA's policy that if an individual purchases a stock that has never paid a dividend and there is no indication that a dividend will be payable in the future, interest would still be deductible as there is potential of dividends as some point in the future.

However, if money was borrowed to purchase gold, which can may result in a capital gain or loss but since there is no possibility of income generation, interest on the loan would not be deductible. If the investor decided to play the gold market by purchasing the shares of a gold company, interest on the loan would be deductible.