

Tax Tip
Week of July 19, 2010

Capitalizing Interest

Interest on loans used to purchase an asset used in a business is normally deductible for income tax purposes. However, the taxpayer has the option of capitalizing the interest and adding it to the cost of the asset. This would result in the interest being deductible as capital cost allowance.

Why would a taxpayer elect to capitalize interest when it qualifies as a deduction from income? This strategy may make sense if the taxpayer has a loss for tax purposes and minimal prospect for income in future years. Losses cannot be carried back and may expire at some point in the future. Capital cost allowance is an elective deduction and the taxpayer can choose not to make a CCA claim until the business returns to profits. Capitalizing interest ensures that the taxpayer will eventually get a deduction for the interest that was paid to purchase equipment for the business.