



Using credit wisely

Most people realize it can be beneficial to take advantage of credit when you know you can repay the full amount before any interest charges apply. But if you're having trouble paying off more than the minimum monthly-required payments, there are also good strategies to manage your existing debts.

John Natale, a lawyer with the Tax & Regulatory Services group at Manulife Investments, says it makes sense to use a line of credit to consolidate higher-interest debts, such as credit cards.

"Rather than owing thousands of dollars on credit cards and paying 18 or 19 per cent interest, you could use a line of credit to pay off all the credit card debt, and then you would just have one payment to make each month at a much lower interest rate," says

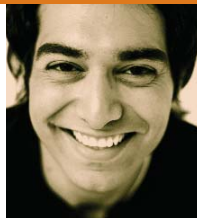
Natale. "Of course, this strategy will only pay off if you don't run up your credit cards again."

Another smart strategy for some people is to convert non-deductible debt to deductible debt. Interest on most loans is paid entirely by you – but interest on an investment loan is generally tax-deductible. So, if you have non-registered investments, you could sell off some of them in order to pay off all your debts, and then borrow money to repurchase your investments. Now you're probably paying a lower interest rate, and the interest you pay is also tax-deductible.

ARE THERE ANY TAX BENEFITS TO BORROWING TO INVEST?

There are: you can often deduct the interest you paid on money you borrowed to make a non-registered investment. There is a caveat, though. Borrowing to invest is a fairly high-risk strategy that may produce short-term losses. It is not for novices.





Although you can't deduct the interest on an RRSP loan at tax time, you still benefit from the deduction provided by your RRSP contribution, which may produce a refund. "You also benefit because the contribution grows tax-free," says Natale.

For that reason, many tax experts believe you would be better off borrowing to make an RRSP contribution than not contributing at all.

Used wisely, credit can be a very helpful tool in your financial planning kit.

Borrowing to invest is suitable only for investors with higher risk tolerance. You should be fully aware of the risks and benefits associated with investment loans since losses as well as gains may be magnified. Meet with your tax specialist or financial advisor for further details.

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