Reduce U.S. Estate Tax with a Non-Recourse Mortgage

A Non-Recourse Mortgage (NRM) is a special type of mortgage that may help reduce your U.S. Estate Tax. It may also provide you with new capital to invest. The NRM interest payments may be tax-deductible.

With an NRM, you may be able to reduce the amount of your taxable U.S. estate, dollar for dollar, by the amount of the mortgage. It is called a "Non-Recourse Mortgage" because generally the sole recourse of a bank in the event of default is to foreclose on the property.

You should consider a NRM if:

- You are a Canadian resident who is not a U.S. citizen
- You personally own real estate in the U.S or are planning to purchase new U.S. real estate
- The value of your U.S. real estate and other U.S. assets is greater than US $60,000
- The value of your worldwide estate is greater than US $3.5 million (subject to change with U.S. legislation annually)

KEY BENEFITS

- Considerably reduce U.S. Estate Taxes
- New capital to invest
- Tax-deductible interest payments

PLANNING TIPS

- If you have an existing mortgage on your U.S. real estate, you may be able to refinance, making that mortgage a NRM.
- A regular mortgage will generally only reduce your taxable U.S. estate by a fraction (the ratio of your U.S. assets to your worldwide assets).
- If you do not need all the NRM proceeds to fully re-finance an existing mortgage or to purchase a new U.S. home, then you can invest the new loan monies in securities (preferably other than U.S. stocks), which may make the interest on the loan tax-deductible. Contact your accountant or tax advisor for more guidance on the tax deductibility of an investment loan.
- Over time, the value of your U.S. real estate may increase and if so your U.S. estate tax liability may also rise as well. You may be able to re-finance the home with an additional NRM as the value of your property grows, if you wish.
- There are different loan-to-value ratios with an NRM (typically less than a traditional mortgage), and a slightly higher interest rate is generally charged by a bank making an NRM (approximately 0.5% higher).

Strategy in action

THE ISSUE: U.S. Estate Tax (all figures in U.S. $)	
Florida[1] condominium	$1,500,000
U.S. securities	$ 500,000
Total U.S. estate	**$2,000,000**
Canadian assets	$6,000,000
Life insurance	$2,000,000
Total worldwide estate	**$10,000,000**
U.S. Estate Tax liability in 2009[2]	**$ 198,000**

(1) The NRM strategy applies in most States. You should contact your U.S. tax advisor or legal counsel to understand the applicability of this strategy to your particular circumstances.

(2) Note that there may also be Canadian capital gains tax on the deemed disposition of the U.S. real estate on the final Canadian tax return. However, to minimize double taxation, the U.S. Estate Tax paid can be taken as a credit against any Canadian federal capital gains tax on the deemed disposition of U.S. assets. Contact your accountant or tax advisor to understand the actual tax consequences of any deemed disposition.

THE STRATEGY: Refinance Florida[1] condo with a Non-Recourse Mortgage	
Florida[1] condominium	$1,500,000
Non-recourse mortgage	($900,000)
U.S. securities	$ 500,000
Total U.S. estate	**$1,100,000**
Canadian assets[3]	$6,900,000
Life insurance	$2,000,000
Total worldwide estate	**$10,000,000**
U.S. Estate Tax liability in 2009	**$ 67,000**

(3) Assume that the proceeds from the NRM are re-invested in Canadian securities.

Take out a $900,000 NRM against the equity in your Florida[1] condominium (you can take out a NRM up to 65% of the value of the real estate). This will provide you with $900,000 of loan proceeds and will reduce the value of your U.S. estate, dollar for dollar, to $1,100,000.

THE RESULT: You save $131,000 in U.S. Estate Tax.

By simply re-financing the equity in an existing U.S. home that you own personally, you can reduce your U.S. Estate Tax, while potentially gaining a tax-deductible investment loan. Please consult with your Investment Advisor who can provide more details regarding an NRM.

As with any tax strategy, make sure you also consult with a qualified tax professional before taking action.

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