July - Sep 2011

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WEALTH MANAGEMENT

Be well-advised.

MONEY matters

"The budget did not include any changes to personal or corporate income tax rates."

THE JUNE 6TH FEDERAL BUDGET

On June 6th, the conservative government reintroduced substantially the same budget that was tabled on March 22nd 2011, only a few days prior to the dissolution of the Parliament. The budget did not include any new tax measures. There were only two new non-tax measures that were introduced in the June 6th budget. These included $2.2 billion compensation to Quebec with regards to the earlier implementation of a harmonized sales tax (provided that a satisfactory agreement can be reached), as well as the phase-out of the $2 per vote quarterly allowance for all federal political parties.

Therefore, the government will go ahead with implementing the welcome income support for low-income seniors in the form of improvements to the Guaranteed Income Supplement, tax relief for families for the costs of cultural activities for young children, and more flexibility in administration of Registered Education Savings Plan (RESP) and Registered Disability Savings Plan (RDSP) that were proposed in the original budget.

The implementation date for all budget measures will be March 22nd 2011.

For a detailed account of the 2011 Federal Budget please read the March – June 2011 Money Matters newsletter.

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SAVE THOUSANDS OF DOLLARS IN MORTGAGE INTEREST COSTS

If you have a $300,000 mortgage at 2.5% interest rate (assuming you have a variable mortgage at prime minus .5% interest rate) that has a 25 year amortization, by the time you pay off your mortgage you will be paying close to $172,000 in interest. For most home owners any reduction in this enormous cost would be welcome news.

Consolidating your mortgage, consumer debt, lines of credit and chequing and savings accounts can help you dramatically reduce the time it takes to pay off your debts as well as the total interest cost.
Most of us have a chequing account where we deposit our paycheques. If we have a mortgage, a line of credit or personal loan, they are usually held separately and may even be held at different institutions. The cash we deposit into our chequing account may sit there for days or weeks before our mortgage or loan payments are withdrawn from our account and in the mean time, we may get little or no interest on the balance in our chequing account whereas we are being charged interest on a daily basis on the outstanding balance of our loans and mortgages.

In a perfect world, we should have every cent of our money working for us and helping pay down our debt faster, right?

Enter "Manulife One" and National Bank's "All in One", both of which are innovative financial products that consist of a chequing/savings account, equity line of credit and mortgage all wrapped into one. By consolidating all your debt into one account at a low interest rate, and using the same account as your chequing and savings account you can use every cent of your income and savings to reduce the balance on your debts and mortgages and pay down your mortgage years sooner than you thought you could. As a result, you can save thousands of dollars in interest payments.

In addition, with this approach you can simplify your banking and manage your day-to-day finances easily. You will always be able to see where you stand financially when it comes to your debt and savings.

You can easily have access to your account through debit purchases, ABM withdrawals, chequing and online or telephone transactions. Plus, you can make deposits at designated ABMs or banks.
You can also enjoy complete flexibility with regards to the amount that you deposit or withdraw from your account each month, as long as your borrowings and accrued interest don't exceed your account limit.

Another useful feature is that you can keep track of different portions of your debt separately by setting up sub accounts for money that you borrow for different purposes. You can also lock in up to 75% of your borrowings at a fixed rate.

In addition, you can also apply for a credit limit of up to 80% of the market value of your property so that you can have access to the equity in your home in case of an emergency.

The extreme flexibility and ease of access to borrowed finds, can work to your detriment if you are not disciplined enough to ensure that your spending does not exceed your income. Therefore this type of product can be the perfect solution for a disciplined borrower and the wrong fit for the borrower lacking in self-control who may actually end up with a much higher debt balance despite all the opportunities for paying down debt faster with the proper use of this plan.

As with any other financial product, you need to evaluate Manulife One in the context of your overall financial planning and discuss it with your financial advisor to ensure that it is the right fit for you. There are penalties and costs involved in breaking an existing mortgage and these need to be evaluated carefully before you make a decision to consolidate all your debts and mortgages in one place. To find out if this could be the right strategy for you let's talk and re-evaluate your debt reduction strategy.

MINIMIZING TAX ON MUTUAL FUNDS HELD IN A CORPORATION

When it comes to tax minimization, the use of Corporate Class mutual fund structures is a strategy that has significant benefits to individuals and to corporations.

Switching from one mutual fund to another triggers capital gains taxes in traditional mutual funds. However, the same switch done between the Corporate Class versions of the same mutual funds will not trigger taxes. In addition, the gains of one corporate class mutual fund can be offset with the losses from another fund in that class. Therefore, these types of mutual funds have the key benefits of tax-deferred switches and accelerated compounded growth (because of reduced or eliminated distributions). Plus, the benefits of Corporate Class mutual funds to corporations go beyond those available to individuals. In general, the benefits are as follows:

Benefits for Individuals and Corporations

- **Converting interest income to capital gains** – The corporate class structure minimizes the potential for distributions from fixed income vehicles allowing investors to 'convert' income to capital gains. For example, money market and bond funds would benefit from capital gains tax rates rather than interest income allowing you to keep more of your investments. If you are in the highest tax bracket in Ontario this means that you can convert a 46.4% tax rate on interest income to a 23.2% tax rate on capital gains income.

- **Controlling when you trigger tax** – In general tax is payable when interest income is received. However, with Corporate Class funds you have the ability to defer tax indefinitely, giving you control over when taxes are triggered and paid.

Benefits for Corporations

- **Withdrawing trapped money from the corporation tax free –** Using the Capital Dividend Account (CDA) it is possible to minimize the taxes payable by the business owner by withdrawing from the CDA, the non-taxable portion of capital gains – money that would otherwise be trapped in the corporation.

- **Avoiding Provincial Capital Tax –** Although capital tax has been removed at the federal level, provincial capital tax may still apply. Since it is a tax on assets rather than on income, the tax impact can be substantial. Corporate Class funds qualify your corporation to be exempt from the provincial Capital Tax.

"With Corporate Class funds you have the ability to defer tax indefinitely, giving you control over when taxes are triggered and paid."

As Canadian investors remain among the most heavily taxed investors in the world, Corporate Class structures provide an efficiency that should not be overlooked.

THE IMPORTANCE OF WILLS AS AN ESTATE PLANNING TOOL

By Jag Gandhi, Hon. B.A., M.A., LL.B

A Will allows us to express our final wishes and let our loved ones know that we took the time to think about and provide for them after we have gone. Everyone's situation is unique to their personal circumstances, but the following are some common issues to look for in a well drafted Will:

a) Dying without a Proper Will ("Intestate")

Where there is no Will or a Will has failed (i.e. due to incomplete execution or ambiguous wording), our government has imposed a process for dealing with your estate. For example, assume that you are currently living in Ontario, have both a spouse and children, and the value of your estate is over $200,000. The legislation dictates that your spouse will receive the first $200,000, with the remaining value of your estate being divided between your spouse (who would receive 1/3) and your children (who would receive 2/3). If your children are minors, they may not receive their share of your estate until they reach of age of majority or until the minor's guardian is granted custody of the assets. **Either way, it becomes a more difficult process which can be avoided by simply having a Will which clearly outlines your wishes.**

The complications of dying intestate are compounded if you are in a blended family situation, or a common law relationship, or are the owner of a private company, or hold assets in other jurisdictions and/or hold dual citizenship with another country. These are only a few of the obvious issues to consider.

b) Taking Care of Children

This is rightfully a big consideration for many parents. **The only place where you can express who you would like to take care of your young children in the event something happens to you is in your Will**. If you die intestate and your children are entitled to a share of your estate, their share is paid into court and held for them until they attain the age of 18 years or until the minor's guardian is granted custody of the assets, which can take a significant amount of time. Perhaps of even greater significance is the fact that there are no restrictions or guidance provided to your child when they receive their share at the age of 18 years. Many people are concerned at the thought of having their children receive a large sum of money (for use at their absolute discretion) at a very young age.

c) Tax Planning

There are two different types of taxes that are payable at death, income taxes and estate administration taxes. As a general rule, one is deemed to have disposed of all of their property immediately before death, which commonly results in the triggering of capital gains. **Under a properly structured Will, capital gains can be deferred upon death.** There are also other tools that can be utilized in particular circumstances to minimize the payment of income taxes and/or estate administration taxes, such as the use of various testamentary trusts or the use of multiple Wills.

How is a Will an Estate Planning Tool?

During our lives we focus on how to gather and manage our assets so that we have enough wealth during our lifetime. However, we also need to focus on preserving those assets on death and ensuring that the wealth is transferred to the next generation. **A properly planned Will is a critical and integral component of your estate plan**.

What Are You Really Paying For?

A properly drafted Will can save your loved ones grief and aggravation during a sensitive and difficult period. Some people are taken back at the cost of properly drafting a Will when there are pre-printed forms and computer programs available on the market for a fraction of the cost. So why use a lawyer? You are paying for someone to think through the maze of legal and practical issues surrounding death to ensure what is written in your Will reflects **your wishes** and works for **your particular circumstances**. You are paying for the **analysis, planning, critical thinking and drafting** which is behind the paper that the Will is written on, not the paper alone.

Pre-printed forms, computer programs, or a poorly drafted Will may seem like a good way of saving money on legal fees. However, there is a risk that these forms could be completed incorrectly or could include ambiguous wording. This may end up costing your loved ones significantly more in court and legal fees than the amount you would have paid to have the Will properly drafted by an experienced lawyer in the first place.

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Tina Tehranchian MA, CFP, CLU, CHFC, is a branch manager and financial advisor with Assante Capital Management Ltd. Assante Wealth Management is one of Canada's largest wealth management companies, offering integrated financial solutions to create wealth and prosperity for you and your family. Our 800 advisors in 300 offices across Canada take pride in the exceptional service they offer to clients through trusted face-to-face relationships and a level of service excellence second to none. Money Matters is published as a special service for clients of Tina Tehranchian.

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"Under a properly structured Will, capital gains can be deferred upon death." *Jag Gandhi*

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Host of CityLine on Citytv

Keynote Speaker: Susan Sommers

Co-author of Power Source for Women: Proven Fitness Strategies, Tools and Success Stories for Women 45+

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** All proceeds from this event will be donated to York Central Hospital

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