

INVESTED INTEREST



Mutual Funds provided through FundEX Investments Inc.

Rick Sutherland, CLU, CFP, FDS, R.F.P.

Winter 2009



Office News

What a year 2009 has been. We began the first quarter witnessing Canadian equity markets settle to record declines since the Great Depression. This was followed by one of the most robust turnarounds in equity prices ever before seen. As we write today we are greater than 52% higher than the low of March

2009. All this to say that ownership of quality businesses is alive and well.

The holiday season will be upon us shortly. Remember to give to those who are in need. We wish all our friends a safe and happy holiday season and may all your wishes come true. See you soon in 2010.

Year End Tax Planning Strategies

With the holiday season upon us the last thing you want to hear about is saving and investing money. However the steps you take now could lead to **significant tax savings** in the near term. You have the opportunity to pay less or receive a larger refund when you file your 2009 income tax return.

Certain tax strategies must be completed before the end of the year. Others, such as your Registered Retirement Savings Plan (RRSP) contribution, can be made during the first sixty days of 2010. However, spousal RRSP contributions are best made at the end of the year. This strategy will reduce the attribution rules by almost one year.

Don't forget, if you turned age 71 this year you have until the end of the year to convert your RRSP to a Registered Retirement Income Fund (RRIF) or annuity. Otherwise, the rules dictate that you have collapsed your plan and will face the tax consequences on your entire RRSP amount next year.



Did you report investment losses on your 2008 income tax return? If so, determine if you have unrealized capital gains in your account this year. By selling your investment and realizing the gain you then use your loss from previous years to reduce or eliminate the taxable gain this year.

A second strategy involves a review your account holdings and determine if it makes sense to sell losing investments this year to apply the loss against reported capital gains in the current or previous three years. It's best to have all trades initiated by December 24 to ensure your trade settles before the end of the year. Remember, you cannot repurchase an identical investment for at least 30 days or you will fall under the superficial loss rules and the Canada Revenue Agency can deny your claim.

Make your charitable donations before the end of the year. Donations below \$200 receive a tax credit at the lowest marginal tax rate; however donations above \$200 receive a tax credit at the highest marginal tax rate. It pays to give.

Registered Education Savings Plan (RESP) contributions are based on a calendar year. You have until the end of the year to make your contribution and receive the 20% free grant money from the government.

These are just a few of the more common year end tax strategies. Some are more complicated and require careful planning. Contact us today if you would like to discuss your year end tax strategies.

Important RESP Information



The deadline for contributions to a Registered Education Savings Plan (RESP) is the calendar year end or December 31, 2009. It is also

important to watch the age of your beneficiary. Although there is no restriction to contribute to a RESP for a beneficiary over age 17, however the contribution does not receive government grants after the calendar year in which the beneficiary turns 17. You will no longer be entitled to government grant money beginning the year your beneficiary turns 18 years of age.

If your beneficiary is turning 16 years old next year there are restrictions on receiving the government grant. One of the following two conditions must be met. A minimum contribution of \$2,000 must have been made and not withdrawn before the year in which the beneficiary turns 16 years of age. Or, a minimum annual contribution of \$100 must have been made and not withdrawn in any of the 4 years preceding the year in which the beneficiary turned 16 years of age.

Proposed Changes to CPP

In May 2009 the Department of Finance Canada proposed some **changes for the Canada Pension Plan**. These changes are intended to modernize the Plan to better reflect the many different paths people take to retirement today. The changes are expected to be phased in from 2011 to 2016, so they will affect anyone planning to retire after 2010. These proposals must be approved by Parliament and the provinces before they can take effect.



Here are the Highlights:

Early retirement (after age 60 and before age 65) = **lower payments**. CPP benefits will be reduced by 0.6% for each month, or 7.2% for each early year. Under the old rules the reduction was 0.5% per month or 6% per year. This means that under the new rules CPP beneficiaries who start collecting CPP at age 60, will receive 36% less than if you wait until age 65. Under the old rules the reduction was 30%. There will be no adjustment for current CPP beneficiaries or for those taking their CPP benefit before these changes take effect. The early retirement changes will be phased in gradually over a five-year period from 2012.

Late retirement (after age 65 but before age 71) = **higher payments**. CPP benefits will be increased by 0.7% per month or 8.4% per year for those who defer collecting CPP benefits after age 65 and before age 71. The increase was 6% under the old rules. This means that if you wait until age 70 to take your CPP, the benefit payments will be 42% higher (30% under the old rules) than if you start at age 65. This change is to be phased in over three years beginning in 2011.

Those who are **still working, under age 65, will be able to collect CPP as early as age 60**. If the changes are approved you may choose to receive CPP retirement benefits any time after age 60 regardless of your other employment income.

Those who are **still working, over age 65 and collecting CPP** will be able to make **voluntary contributions into CPP** through their work to increase their benefits.

The calculation for CPP will change as well - currently the lowest 7 years of earnings is deleted from the calculation. Under the proposed changes, the **lowest 8 years will be omitted** so that the benefits are not weighed down by low earning years.

Stop Higher Management Fees

The governments of Ontario and British Columbia have proposed to **harmonize their current provincial sales tax (HST)** with the federal GST in July 2010. This measure will have a negative impact on Canadians saving for their retirement. We are dead against this new tax on savings. This tax is discriminatory against the mutual funds, relative to other financial products.

Currently Canadians pay 5% GST on the fund management fees. The HST will more than double the tax to 13% in Ontario and 12% in BC. You can help ensure the harmonization proceeds in an equitable manner.

It's not a matter that other financial vehicles are not taxed. This is a discriminatory tax against mutual funds. Under the proposed HST mutual funds will be taxed at 4 to 5 times other financial products. Since the GST was introduced in 1991 hard working Canadians, who are saving for retirement, have already paid \$5 billion more tax than other non-fund savings vehicles. That money could be in your savings accounts today. This is what we find unacceptable.

We must act now to stop this unfair tax. If elected officials receive letters in sufficient quantity they will ask questions in Parliament and caucus meetings. These questions will tell the government that failure to amend the GST application will be of great concern to ordinary Canadians.



It's not too late to voice your opinion and plead with policymakers to halt this decision before it becomes law. We have submitted our letter to our local MPP and we urge you to do the same. We can supply a copy of our letter upon your request.

Keep In Touch

We welcome your suggestions, ideas, comments and questions by email at rick@invested-interest.ca.

You can also contact us at: 1276 Wellington Street, Ottawa, Ontario K1Y 3A7.

Phone us at 613-798-2421 or fax us at 613-798-2427

Don't forget to check our website for interesting articles, new links and updates at www.invested-interest.ca

The foregoing is for general information purposes only and is the opinion of the writer. This information is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice. However, please call Rick Sutherland to discuss your particular circumstances.

Commissions, service and management fees/expenses may be associated with mutual fund investments. Please read the simplified prospectus before investing. Mutual Funds are not guaranteed and are not covered by the Canada Deposit Insurance Corporation or any other government deposit insurer. There can be no assurances that the fund will maintain its net asset value per security or that the full amount invested will be returned to you. Fund values change frequently and past performance may not be repeated.