THE
Guardian

...building better retirement incomes since 1974 *Fall 2009*

PLAN NOW FOR A BETTER TAX RETURN

While tax planning is a year round activity and a vital component of the financial planning process, as we approach year end it is time to pay special attention to various tax issues in advance of the end of the 2009 taxation year. The following outlines some common tax planning ideas as items that should be addressed, as well as some considerations for 2010.

Tax Loss Selling – Consider crystallizing capital losses on positions in your portfolio that are currently trading at a loss. Realized capital losses can be used to offset realized capital gains in the current year, thereby minimizing tax. If there is a net loss in the current year, it can be carried back to reduce taxable capital gains in the prior 3 years or carried forward indefinitely against future capital gains. You must ensure you avoid the superficial loss rules. Specifically, if you or your spouse or a corporation controlled by either of you acquire identical property within 30 days before or after the sale, the capital loss will be denied and added to the cost of the identical property.

Selling to utilize capital losses carried forward from a previous year – Consider triggering gains in your portfolio that can be offset by unused capital losses that are being carried forward from prior years, thus potentially eliminating taxes on the gain.

Bumping income to minimize long term tax consequences – Many retirees find themselves with significant RRSP sums and are currently being taxed at a relatively low rate. One must take into account that at the death of the first spouse, the surviving spouse may find themselves in a higher tax bracket once RRSPs, pensions and other investment assets are transferred to their name and all income generated now taxed in one persons hands. Taking this a step further, all registered capital (RRSPs and RRIFs) will be subject to tax at the death of the last surviving spouse. With this in mind, the taxpayer should consider increasing their income by accelerating withdrawals from RRSPs or RRIFs at this time. While this will result in additional taxation currently, the effective tax rate on the withdrawal may be substantially less than the tax rate in the future. Further, now that eligible pension income can be split with a spouse, this strategy potentially becomes even more effective.

Trigger pension income to qualify for the pension income credit – You are entitled to a federal and provincial tax credit on the first $2,000 of qualifying pension income. For individuals age 65 and older, qualifying income includes income payments from a registered pension plan, RRSP annuity, RRIF, LIF, or the taxable portion of a non-registered annuity. For individuals younger than 65, qualifying pension income includes payments from a registered pension plan or payments as a result of the death of a spouse. Income allocated to a spouse based on the pension splitting provisions also qualifies for the tax credit. With the resultant tax savings of approximately $350 for BC residents, we suggest tax payers take advantage of this provision where eligible.

Spousal RRSP contributions – The RRSP contribution limit for 2009 is 18% of earned income, less the Pension Adjustment to a maximum of $21,000. This calculation would be summarized on your Notice of Assessment for the previous year. While the contribution deadline for 2009 is March 1, 2010, consider contributing prior to the year end if you are contributing to a spousal plan. Specifically, the attribution rules on spousal RRSPs restrict withdrawals in the year of or the 2 years following the last contribution. Thus, if a contribution is made in 2009, the attribution period ends after December 31, 2011. If a contribution is made in the first 60 days of 2010, the attribution period extends to December 31 2012.

RESP contributions – The deadline for RESP contributions is December 31st each year. Recently enacted changes to the RESP rules allow contributions up to a lifetime maximum of $50,000, which can be contributed anytime. Only the first $2,500 contributed each year qualifies for the 20% basic grant and the grants are only paid up until the year a beneficiary reaches age 17. While you can make up for missed contributions, grants will not be paid on annual contributions in excess of $5,000 each year. Thus, some planning is in order for RESP subscribers of plans whose beneficiaries are approaching 17. If grant eligible contributions have not been maximized, an effort should be taken to ensure that unused grant room can be taken advantage of with contributions not exceeding $5,000.

Consider deferring the purchase of non-registered mutual funds until the beginning of the year – Equity mutual funds tend to pay out distributions toward the end of the calendar year. The distribution will be allocated to all unit holders as of the distribution date, regardless of whether the fund was held by the investor for the full year or a partial year. So paraphrasing commonly heard tax advice, “if you cannot deduct, defer”. Note that some mutual fund companies have a corporate or capital class structure which avoids or minimizes these distributions. We suggest you confer with your advisor on this.

TFSA – Since January 1, 2009, Canadian residents age 18 and older have been able to contribute to a Tax Free Savings Account (TFSA). While the contribution is not deductible, the investment return is tax free. In subsequent years, the annual contribution room will be indexed with inflation. Any unused contribution is carried forward indefinitely. Any

withdrawals from a TFSA are tax free and are added back to one's contribution room for the following year.

Most taxpayers will want to take advantage of this and certainly anyone who holds investments outside of an RRSP should consider transferring up to $5,000 of their non-registered holdings into a TFSA (tax implications of the disposition of the non-registered holdings must be taken into consideration). Thus, investment decisions being made at this time should take into account that it makes sense for most taxpayers to have $5000 available to deposit to a TFSA in early 2010.

Deferring bonuses – If you expect to receive a bonus for the 2009 year, you may wish to discuss with your employer about deferring the bonus until January of 2010. This enables you to have the use of the funds for a full year before having to pay the tax on it.

If you have RRSP contribution room, you may ask your employer to have the bonus paid directly to your RRSP, thus avoiding income tax withholding. Further, the deferred bonus if paid directly to your RRSP results in a contribution for the 2009 year but an income inclusion deferred until 2010.

Converting RRSPs to income – Taxpayers born in 1938 must convert their RRSPs to an income prior to December 31 2009 . Locked-in RRSPs must be converted to either a Life Income Fund or an annuity while regular RRSPs must be converted to a RRIF or annuity.

Due to the general nature of this outline, we suggest you consult with your advisor to determine how these issues apply specifically to you.

Olympics 2010

It will be an exciting time to be in the Greater Vancouver / Whistler area in February 2010 as we host the 2010 Winter Olympics. With that excitement will come an element of chaos, particularly in regard to travel within the Lower Mainland and Whistler areas.

This is typically a busy time of year for financial planning, with RRSP and TFSA contributions included in the list of issues usually dealt with in the early part of the year. While it is business as usual for us, meeting with your advisor during this time will be more challenging. If you are used to meeting your advisor in the early part of the year, we suggest you be in touch with them to either get together prior to the Olympic rush, or if not a time sensitive issue, consider deferring until after the games complete.

REGISTERED RETIREMENT INCOME FUND (RRIF)
STATUTORY MINIMUM MONTHLY INCOMES BASED ON $100,000
COMMENCING ONE MONTH FROM ISSUE

Best Current Rate: 3.50%

Age	1st Year	TOTAL PAYMENTS TO AGE 100
55	$239.00	$196,194.00
60	278.00	177,097.00
65	334.00	160,234.00
71	616.00	142,958.00

A R.R.I.F. can also be structured to pay a level income for a shorter period. Based on current interest rates, $100,000 will produce the following monthly income.

For 5 years: $1818.00
For 10 years: $999.00
For 15 years: $725.00

MONTHLY ANNUITY INCOMES COMMENCING
ONE MONTH FROM ISSUE BASED ON $100,000

Age	LIFE (Payments cease at death)		LIFE 10 Year Guarantee		JOINT LIFE 10 Year Guarantee
	MALE	FEMALE	MALE	FEMALE	MALE & FEMALE
55	$585.34	$532.31	$574.10	$527.67	$476.99
60	633.26	577.22	614.20	568.66	533.00
65	705.92	627.85	668.77	611.50	567.62
71	836.49	724.88	749.47	749.47	633.54

The material contained herein is intended to provide the clients of Solguard Financial Ltd. with advice and guidance of a general nature, and is believed to be accurate at the time of writing. However, due to rapid changes in interest rates, market conditions, tax rulings and other investment factors, readers should seek further advice specific to their situation, before proceeding with investment action.

Peak Securities Inc. is a member of the Canadian Investor Protection Fund.

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