MUTUAL GAINS™

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Without money, possibilities are limited...... without personal relationships, life is barren.... without balance, happiness and fulfillment are just a dream.

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C.E. Vandenberg & Associates Inc.
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13230 – 16th Avenue
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www.careyvandenberg.com

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10 Common Tax Return Errors

Tax filing errors can be costly, both in terms of paying more tax than necessary, as well as possibly delaying your refund. The following are common tax filing errors you should review to ensure you avoid them at all cost this year:

1. Math errors are inevitable when you prepare your tax return manually. Either review your addition and subtraction calculations twice to thrice, or better still, purchase tax preparation software like Quicktax that can eliminate the human error of the equation. Also, tax software will switch your deductions automatically between you and your spouse to make sure you get the maximum tax savings possible.

2. Did you move at least 40 kilometres to start a new job, or to attend school? You may be able to deduct your moving expenses. Eligible moving expenses include real estate commission on selling your old home, legal fees on both the sale and purchase of your home, and any mortgage interest prepayment penalties/discharge fees, as well as lease cancellation costs/payments if you're a tenant.

3. You may have received certain payments that are entitled to special tax treatment (Workers' Compensation, social assistance, net federal supplements etc). Although these payments are included in income, an offsetting deduction also may be claimed.

4. Parents, grandparents and spouses often miss the opportunity to transfer up to $5,000 of tuition/education fees (that are eligible for a tax credit) from children who are unable to use the tax credits themselves because they have little or no taxable income.

5. Provincial tax credits, such as property and sales tax credits, often are not claimed, or are claimed improperly. These credits should be computed and claimed on the proper provincial tax credit forms.

6. Taxpayers who are members of a Registered Pension Plan (RPP) or Deferred Profit Sharing Plan (DPSP) often don't realize that their RRSP contribution room is reduced by a "Pension Adjustment" (PA). Over contributing to an RRSP can trigger penalties.

7. GST/HST credits may be improperly claimed if a spouse's income is incorrectly reported.

8. If you took money out of an RRSP using the "Home Buyers Plan" (HBP) or Lifelong Learning Plan (LLP) repayments need to be made annually back into your RRSP. Failure to make the necessary repayments will cause an income inclusion on your tax return. In other words, what you don't pay back will be added to your income which means additional tax to pay. More importantly, if you have made RRSP contributions, be sure to make the appropriate repayment designation on Schedule 7 of the personal tax return.

9. Failing to maximize claims for non-refundable tax credits for spouses/common-law partners (CLPs). Many spouses/ CLPs neglect to combine their medical expenses on the lower income spouse's tax return, and/or fail to combine their charitable donation receipts and claim them on the higher income spouse's tax return. Failing to apply these simple strategies to maximize eligible tax credits may result in you paying greater income tax than is necessary. Tax software (see point #1) will automatically re-allocate your deductions and credits between the two of you to ensure you are paying as little tax as legally possible.

10. Forgetting to maximize claims for non-refundable tax credits by seniors, including incorrect age and disability amounts, and/or pension income credits. In addition, a common medical expense incurred by many seniors, and often not claimed, is health insurance premiums paid for out-of-country medical expense insurance while travelling.

Significant Federal Budget Announcements

Below are a handful of the more significant changes in the most recent Federal Budget:

- ✓ RRIF has to start by age 71 (up from the previous age of 69)
- ✓ There is now no RESP contribution limit (it used to be $4,000 per year). Also, the maximum grant paid by the government to annual contributions will go up to $500 per year ($2,500 annual contribution rather than $2,000).
- ✓ For every child you have under age 18 you will save up to $310 in income tax.
- ✓ A Registered Disability Savings Plan (RDSP) has been announced allowing a parent or guardian of a disabled person to put money into a plan and have it compound tax free. The government will also pay grants into the plan up to $3,500 per year (based on an annual contribution of $$1,500).
- ✓ You can donate to your own family's private foundation and not trigger any capital gains on investments transferred in (see article further down titled "You Can Have A Charitable Foundation In Your Family's Name").
- ✓ All scholarships and bursaries (post secondary AND elementary and secondary school) are now tax free to the recipient.
- ✓ The additional tax credits for "Super" flow through investments (worth approx. $1,500 in tax savings per $10,000 invested) had been continued for another year.

Get Steady Income The SWP Way

A particular mutual fund which started in 1981 has an average annual compounded rate of return over the past 25 years of 14.8% per year. This investment has proven to be an excellent investment for a SWP (Systematic Withdrawal Plan), and a real estate investment alternative worthy of your consideration.

If you had put $100,000 in this fund when it started and since then had the investment portfolio pay you $833 per month, every month for 25 years (300 months) you would have received $250,000. That is the smallest part of the equation. Your portfolio would still have been worth $1.2 million at the end of December 2006.

Despite what we "feel" or "believe" to be true, the truth is that I have seen no real estate investment in Canada that has produced (net of all costs) such an outstanding return as consistently and over such a long time period.

Using A SWP Strategy As A Rental Property Alternative

Many people have used a SWP to pay themselves tax efficient income in their retirement. But what if you are in your 30's or 40's and are no where near retirement? The other way you can apply a SWP investment strategy is by borrowing the money for the investment and having the portfolio pay your interest costs or pay off your investment loan over time.

If as above, you borrow the $100,000 and to be conservative, did a SWP of only $500 per month instead of $850, which is just enough to cover your interest costs on the investment loan, how do you think your financial picture could look like 10, 15, 20 or 25 years from now? All with no tenants, property taxes, strata maintenance, new roofs, hot water tanks, damage deposits or leaky condos to deal with or pay for. Nice.

Disclaimer: Mutual funds and other securities are not guaranteed. Their values change and past performance may not be repeated. Borrowing for investment purposes carries risk. Our company's risk disclosure talks about these risks. PIP Leverage Disclosure

Tax Shelter Red Flags

Over the past 20 years I have seen all kinds of secret, hush hush, join a special, select group to take advantage of a lucrative money making or tax saving deal. All have left a wake of financial losses and devastation. Here are a couple of common warning signs that should raise a red flag or two when you are presented with a money making proposition:

- An opportunity to invest in high-yielding offshore investments.
- To get in on the investment you must join a club which in most cases you are paying a one time or annual fee. Membership will also require that the sign an agreement that you will not share any detailed information about the investment with anyone.
- The investment triggers losses which promise that you can take a tax free withdrawal from your RRSP or RRIF.
- Your money is given to the promoter who in turn tells you that it will be put into an offshore account or investment.

You are told your money won't be traceable by the government and because of that their will be no tax to pay on the money you make on the investment.

If at any time you are presented something that sounds very attractive and tempting please do feel free to call or e-mail me what you have been offered. I would be happy to give it a smell test and let you know my thoughts. Hopefully it will insulate you from financial and emotional havoc.

Preparing For When We Can't Take Care Of Ourselves

As the baby boom generation ages and health-care costs rise, a greater portion of parents' medical expenses may fall on their children's shoulders. Including financial protection of some kind should be included in an overall financial plan. In this case it would be Long Term Care insurance that would pick up the tab.

Many people are not aware that Long Term Care (LTC) insurance coverage can be purchased to pay for nursing care or assisted living later in life. If your family has long life genes then coverage can be especially valuable as it pays out for life. With a cost of $2,500 per month quite normal, this can eliminate a burdensome cost, especially if one of the couple is still healthy and will continue to live in their primary residence. If Alzheimers or Dementia is the issue LTC can cover a very expensive care situation. Long-term-care insurance is the financial safety net in all of these cases.

Issues associated with the later years in life, particularly retirement income and long-term care can be difficult subjects that neither aging parents nor their middle-aged children want to confront. However, it is in the best interests of the whole family to talk about long-term financial questions before a crisis hits. Talking about it "tomorrow" won't do you any good if something happens today. If family members resist having a conversation about long-term finances, it can help a great deal to have a third party such as a financial planner moderate the discussion as it can soften the emotional issues that come up.

You Can Have A Charitable Foundation In Your Family's Name

A Charitable Giving Fund is designed to make giving a regular part of your overall financial plan for almost anyone. A foundation in your family's name is not only for the very wealthy. It is now a simple and convenient solution that combines immediate tax benefits with the ability to support your favourite charities now and in the future. Here is how it works:

1. **THE INITIAL GIFT** - Decide on how much you would like to donate. The initial gift to the Fund in most cases must be at least $25,000.

2. **MAKE THE DONATION** - Help your client decide how to donate to their Fund. The donation may be in cash, stocks, bonds, mutual funds or insurance. You get one large tax receipt as soon as you put money into your foundation. And with the most recent federal budget, if you are transferring in an investment that has a capital gain attached, you trigger no capital gains tax on the transfer into your foundation.

3. **NAME THE FUND** - Decide what your client would like to call their Fund. Every time a grant is sent to a charity, the Fund's name will be cited as the source of the gift (unless you chooses to give anonymously). e.g. "The (insert your family's name here) Family Charitable Giving Fund".

4. **CHOOSE YOUR INVESTMENTS AND CHARITIES** – If the donation was in cash make a decision on what you want to invest in and which "Eligible Charities" will receive annual grants.

5. **NAME A SUCCESSOR** - Your client can choose a successor to their Fund. For example, you may choose to name a child or another family member in order to establish a multigenerational tradition of giving.

The cost on a typical plan is 1% per year of assets within the plan. For this you get administration taken care of for your Charitable Foundation which includes dispursing annual grant amounts to the charities you choose now or in the future.

"We make a living by what we get, but we make a life by what we give" Winston Churchill

HHHhhhhmmmmm.........

The average Canadian between the ages of 55 and 65 has $124,500 in their RRSP (Statscan).

Of the 7.4 million Canadians who said they have retired, 4.7 million (63.5%) went back to work because they needed the money (2005 Survey of Financial Security by Statscan)

Many people think they have the knowledge and information that will allow them to pick winning investments consistently however this is "a belief which the preponderance of academic research calls into question". Behavioural finance shows that the most confident investors have the worst performing portfolios. (Dr. Richard Deaves, McMaster University DeGroote School of Business)

Public Employees Benefit Agency in Saskatchewan (PEBA) has been advising their 70,000 plan members to move all their pensions to a locked in self directed RRSP with the help of a financial planner.

The amount of income you can earn without paying any income tax is $8,929 per year.

Toyota's luxury brand Lexus has fallen from 1st down to 5th in Consumer Reports magazine's annual predicted reliability survey. Other luxury brands fell much further. Mercedes-Benz was last among 36 brands. Land Rover, Hummer and Jaguar were almost just as bad. Mercedes' quality is so imperilled that a 9-year-old Lexus LS 400 has fewer problems than a new Mercedes ML. Included in the Consumer Report's "Worst Bets" list were BMW's 5 and 7 series along with a lot of VW's. (USA Today, March 2007)

General Motors promotes its trucks in TV commercials to sound bites of "This Is Our Country" but makes some of its best-known SUVs in Mexico.

The average cell phone bill is one-third higher in Canada than in the United States. Canada's price premium translates directly to how many people are willing to pay the price. Just 56% of Canadians have a cell phone compared with an average of about 90% in the rest of the developed world. (Globe & Mail, March 2007)

24% of homeowners took out a line of home equity credit to buy a car or truck. 8% bought a vehicle using 2nd mortgage financing. (Washington Post, March 2007)

Land prices in Japan rose last year for the first time in 17 years, when the so-called "Bubble Economy" burst in 1990. The recent rise was a miniscule 0.1% for residential property. (Associated Press, March 2007)

Carey

Chartered Financial Planner