Outlook on Business

A well kept 'secret'

For some reason or other, "professional advisers," be they tax planners, financial writers, accountants, lawyers, bankers, etc. have never latched onto the "secret" that is available through investment funds.

Why it is a "secret," I don't know.

We have been proclaiming it, and sharing it with people for over 60 years, and people have been enjoying the results for 60 years.

It's called a withdrawal plan!

As the name implies, it is a withdrawal of assets, usually on a monthly basis, giving you a monthly income that is virtually tax free. Furthermore, you can have any income you desire per month, and you can increase or decrease the monthly amount paid to you any time you wish, or extract a lump sum in addition, any time you wish.

In other words, it's completely flexible, and can be tailored to your immediate, and also unknown future needs.

The "withdrawal plan" gives you almost completely tax-free income, whereas "interest-income" from a savings institution or mortgage comes to you completely taxable.

Hopefully, all of us save "for the future," and that future is called retirement. In retirement, we want a monthly income. That is what a "withdrawal plan" provides.

How does it work?

Let's look at a comparable example. Suppose you decided to purchase a 100 acre farm. It was valued at $1,000 per acre, therefore its total cost was $100,000. But land values continued to rise, and you soon discovered your farm was worth $1,100 per acre, thus the value was now $110,000.

But you needed money, so you decided to sell off nine acres. This gave you (9 x $1,100) equals $9,900 to do with as you liked.

Now ask yourself the question: "How much of that $9,900 would be taxable?" It's funny, but 99 per cent of people asked, give us a wrong answer.

Let's examine it! The $9,000 is considered as return of principal. After all, you used after-tax dollars to buy the farm, and you paid $1,000 per acre, so there is no tax on getting back the $9,000 you paid for the 9 acres. But the land did increase in value by $100 per acre, so you have a capital gains of $900.

Only two-thirds of capital gains are taxable. In this case it means (2/3 x 900 equals 600) subject to income tax, and if you were in the maximum 45 per cent tax bracket, the tax payable would be $270.

Where else could you receive $9,900, and pay a maximum (or less) tax of $270? If you earned interest of $9,900 and were in the 45 per cent tax bracket, your tax payable would be $4,455.

Finally, the value of your farm before the sale was $110,000. You sold off $9,900 worth, so what you have left is worth $100,100, which is slightly more than your original investment. You have "money in your pocket" and still have your original value.

Here's an exact example of what has happened during the past 20 years on a withdrawal plan in Templeton Growth Fund.

Assuming an investment of $100,000 on January 1, 1968 (or move the comma over and make it $10,000) and you wanted a one per cent per month, (which is 12 per cent per year) income from that investment.

At the end of 20 years you would have received $240,000 in cheques of $1,000 per month, and that income would have come with very little taxation, because it was derived by "selling off" shares (acres). The value of your investment (farm) left is $974,000, which is $874,600 MORE than you originally invested.

And... if you now decided you wanted one per cent per month on the present value, you would be getting $9,741 per month, which is $116,887 annual income, with very little tax liability.

Now you know the "secret."

For a free pamphlet on withdrawal plans contact: Peter C. Masson, 10 Fagan Drive, Georgetown, Ont. L7G 4P3. Or phone 877-7216.

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OUR LANGUAGE

by Jeffrey McQuain

A word's **etymon** is the earlier term from which that word is derived. The etymon of **truth** comes from Old English, and that's the **treowth**.

Sharp pangs or hard struggles involve **throes**, pronounced like "throws." Don't struggle with throes, which is a good word to toss around.

Q. When stories about business refer to "greenmail," what does that word mean?

A. **Greenmail** involves buying large amounts of a company's stock so the company, to avoid being taken over, must buy back the stock at a higher price. The green of greenmail may refer to money, but make no mistake: The word is based on blackmail.

Cleaning up

Barragers Cleaners celebrated the opening of their third store in Georgetown Saturday. Mayor Russ Miller (right) was there to award draw winner Anna Maloney (left) with an embroidered cloth. Store owners Vijay Mitera (centre) and her husband Mani now have four stores in the Halton Hills area. (Herald photo)