

# Year-end tax planning should be well underway

By PAUL J. ROCKEL  
Herald Special  
RRSPs Important In  
Year-End Tax Planning

Fully half of all Canadians over the age of 18 have never contributed to an RRSP, according to a recent survey commissioned by a large trust company.

And 40 per cent of those who do have one has less than \$10,000 saved.

Many of us are like ostriches ... we have our heads in the sand. In spite of the millions of dollars spent by the government and financial institutions Canadians continue to procrastinate and find reasons not to contribute. Almost two thirds (64 per cent) of those polled were not aware of the new RRSP limits.

Here are some of the items that should be taken into account in order to take stock of our individual tax situation, and make plans, wherever possible, to reduce our tax liability.

This list is of a general nature, for specific information talk to your tax advisor.

**Determine Mix and Return:**

If you have always invested in income related securities this

may be the year to enhance the growth of your plan by adding long-term equity investments.

**Consolidate Into Self-Directed:**

Consider consolidating all those little plans you opened in haste as a result of last minute decisions, into one or two self-directed plans. This will save on both administration and fees. To avoid penalties for cashing in early, this may require a long-term plan to move the funds on maturity dates of any debt instruments rather than before.

**Plan For Current Year's and Next Year's Contributions:**

Make this year's contribution now if funds are available rather than waiting until the deadline; then make next year's contribution as early as possible to accelerate the compounding effect of the contributions. The contribution limit for 1991 is the lesser of \$11,500 and 18 per cent of 1990 earned income. The contribution limit maximums will increase by \$1,000 a year and \$15,500 in 1995 and will be indexed thereafter.

If you are a member of a registered pension plan (RPP) or deferred profit sharing plan



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(DPSP) your RRSP contribution limit will be reduced by your Pension Adjustment (PA) starting in 1991. The PA is a measure of the benefits you obtained through the RPP and DPSP contributions in 1990. It was reported by your employer to Revenue Canada on your 1990 T4 slip. Using this figure Revenue Canada will inform you in the fall of 1991 what your 1991 contribution limit will be. As the maximum PA is \$10,500 in 1991 (\$11,500 in 1992) you always have available to you a minimum of \$1,000 RRSP contribution limit each year.

The easiest method of making early contributions to your RRSP, while at the same time obtaining the accelerated compounding effect, is to make monthly contributions all year long. This can be done through a PAC plan where the funds are automatical-

ly withdrawn from your bank account each month. A previous article described how taxes can be saved on an ongoing basis through reduced tax withholdings on employment income when a PAC plan is used for RRSP contributions.

Borrowing to make your contributions should only be considered if the loan can be repaid in a short time frame. That way, the non-deductible interest costs don't outweigh the tax savings of the income deferral.

Next week we'll continue with

more items for year-end tax planning.

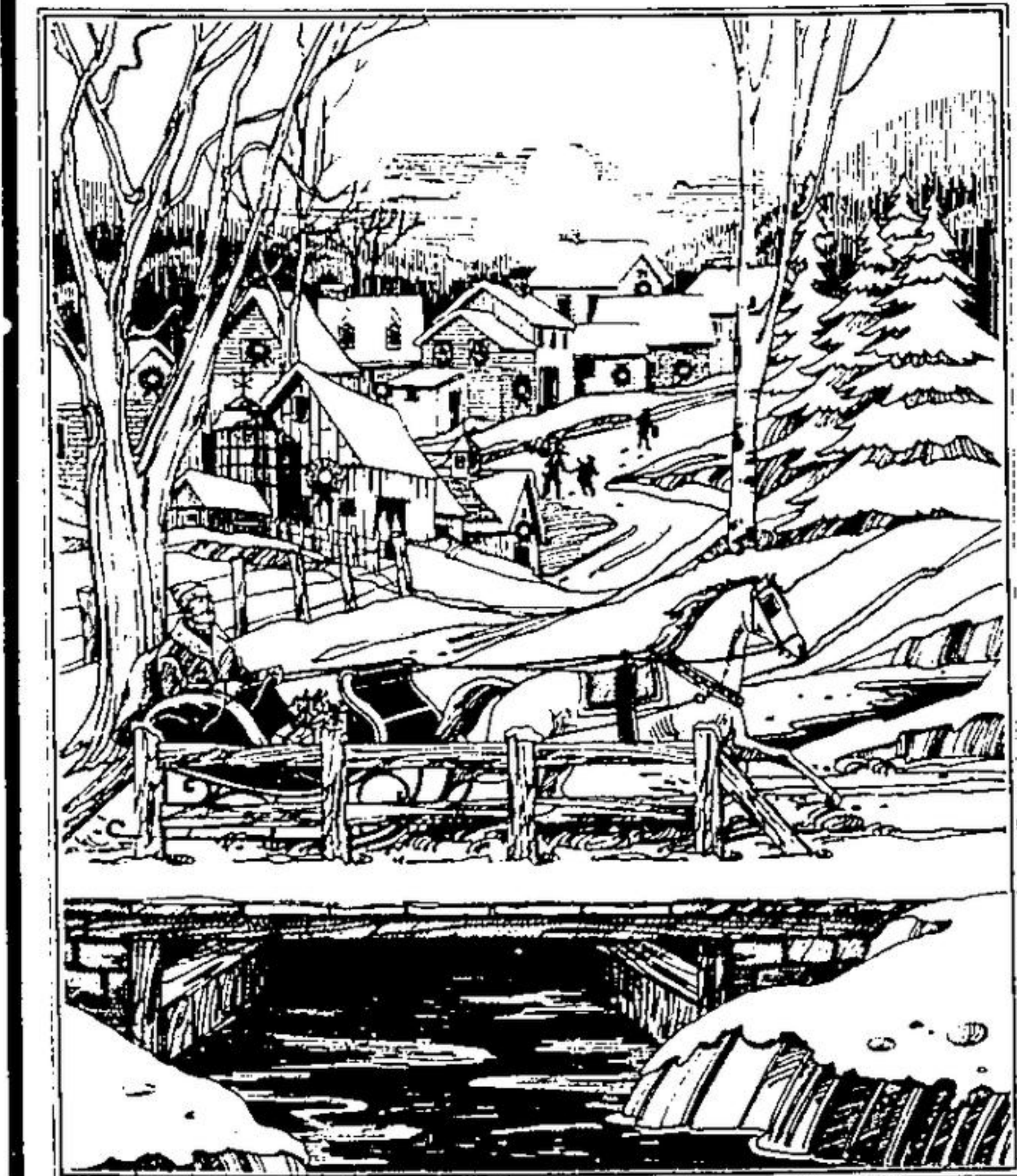
For a free long term comparison between an equity mutual fund RRSP and an RRSP investment earning 10 per cent contact Peter C. Masson, 10 Fagan Drive, Georgetown, Ontario or phone 877-7216.

Paul J. Rocket is the author of the best seller "Why I Invest in Mutual Funds" and President of Regal Capital Planners Limited, a 24-year-old financial planning company with offices from coast to coast in Canada.



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