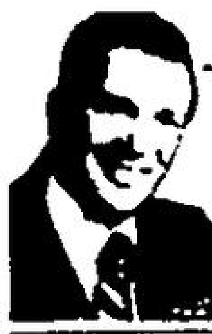
Careful financial planning can lead to reduced taxes

By PAUL J. ROCKEL
Herald Special



IT'S YOUR MONEY
Paul J. Rockel

Last time we covered tax planning and RRSPs. There are those who consider Canada as a country of savers rather than investors, which makes it all the more surprising that less than half of employed Canadians over the age of 18 contribute to an RRSP.

Let two or more Canadians gather together and it won't be long before the conversation turns to taxes, especially income tax and the GST. There is not much anyone can do about the GST, but careful planning may help reduce income taxes. Many Canadians turn the job of tax preparation over to specialists, however, it is still a good idea to be as familiar as possible about tax options that may be available.

What follows is a general summary of some of the other items to consider for the inevitable approach of April 30 prepared with the assistance of the C.A. firm Ernst and Young.

Plan for rollovers:

If you have periodic pension income, $6,000 of your periodic pension income may be rolled into a spousal RRSP before the end of the year in which your spouse turns 72. This rollover provision is only available until 1994.

A lump-sum withdrawal from a pension may still be rolled into an RRSP as long as the rollover is made on a direct plan-to-plan basis. Retiring allowances also still qualify for rollover.

Consider a non-deductible overcontribution:

Starting in 1991, individuals will be able to make excess contributions to their RRSPs of up to $8,000 without incurring any penalty. This amount will not be currently deductible but presents an interesting planning opportunity where you can shelter tax on the income earned on an additional $8,000. Since the new rules provide for an indefinite carry forward of these undeducted contributions made after 1990, you can simply reduce a subsequent year's contribution to utilize the advance contribution.

Plan for carry forward of unused contribution limits:

We all know there are times when the funds just aren't available to make an RRSP contribution as other financial concerns and requirements take precedence. Revenue Canada, starting in 1991, allows a carry forward of unused contribution limits for a maximum of seven years. This means you may make the contribution and claim the deduction in any year in the seven year carry forward period.

Warning - don't use this provision as an excuse to be lazy about your contributions. The more years you delay the harder it will be to make up the total unused contributions before the carry forwards expire. In addition, the delays will cause you to lose the tax-free compounding effects as well as the early tax deferrals.

Capital Gains and Investment Income

With the introduction of the $100,000 capital gains exemption several years ago, and in 1988 the cumulative net investment loss (CNIL) rules which limit the use of the exemption, planning for tax considerations of investment income and capital gains has become far more complicated.

Assess CNIL position:

A previous article detailed how to determine the extent to which investment expenses exceed investment income and create a net investment loss. If a loss exists it will limit the use of the capital gains exemption by the amount of the loss.

Realize gains to use $100,000 exemption:

Even if a CNIL problem exists, it may make sense to realize capital gains in 1991 if the gains are larger than the CNIL and at least part of the capital gains exemption can be used. This is particularly true if you expect the CNIL to grow in future years thus restricting the use of the exemption to an even greater extent.

Estimate Your Tax Liability

Year-end tax planning should always include an estimate of the total tax payable for the year.

Identify all sources of income and deductions:

Run through last year's tax return and identify any changes in sources of income or expenses during the year. Ensure that any expense payments are made before December 31st if you expect to claim a deduction for the year. Keep in mind that a portion of family allowance and Old Age Security payments may be taxed back. The amount of the repayment is equal to the lesser of 15 per cent of your income in excess of $50,986 and the Family Allowance/OAS payments received.

Ensure installment payments are up to date:

If more than 25 per cent of your income comes from sources which are not subject to tax withholdings at source (i.e. dividends, interest, rentals, etc.) you are required to make installment payments on a quarterly basis (March 15, June 15, September 15 and December 15) each year, with the final payment being made the following April 30th. Your 1992 tax installments should be based on the lesser of your 1991 tax and your estimated tax for 1992.

Finally, determine if minimum tax applies:

The minimum tax provisions require a recalculation of an individual's taxable income without allowing for certain deductions ("tax preference items") which reduce regular taxable income for regular tax purposes. Tax preference items, which require add-back to regular taxable income to arrive at an adjusted taxable income, include RPP and RRSP contributions (including catch-up RRSP contributions of previously unused limits in the seven year carry forward period) and tax shelter deductions (e.g. losses created by CCA on certified Canadian films and MURBS, and losses on drilling funds and flow-through shares created by exploration and development expenses and depletion claims). In addition, the non-taxable portion of any capital gains (i.e. 25 per cent of the gains) is added back while the grossed-up portion of any taxable Canadian dividends is deducted. A flat $40,000 is then deducted fromt his amount to arrive at adjusted taxable income. Federal minimum tax is calculated on adjusted taxable income at a 17 per cent rate. You are required to pay the larger of your regular tax and minimum tax liability. If the minimum tax exceeds the regular tax, the difference is carried forward for up to seven years and refunded to you in those years if your minimum tax is less than your regular tax at that time.

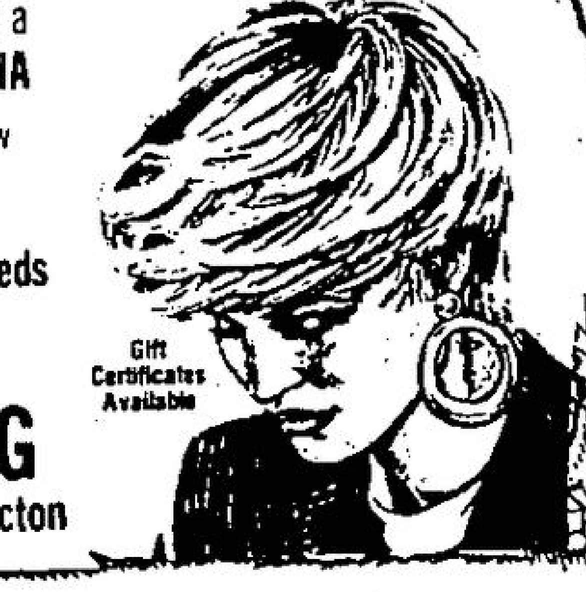
Knowing some of the actions required before each year-end to minimize taxes is a key part of an ongoing financial planning program.

For a free copy of 1991 tax rates and personal tax credits and 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, Ont. or phone 877-7216.

Paul J. Rockel 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.

New catalogue unveiling

Dominion Seed House President Charles McLean and local town councillor Ann Currie unveil the company's new 1992 catalogue during a reception Thursday afternoon. (Herald Photo)



Local Halton Regional councillors appointed to standing committees

As part of Wednesday's inaugural Halton Regional Council meeting, the new councillors were officially appointed to a Regional Standing Committee.

The five local Regional Councillors include Halton Hills Mayor Russ Miller, Bill Robson, Rick Bonnette, Pam Johnston and Marilyn Serjeantson.

Mayor Miller, and Coun. Robson will serve on the Regional Health and Social Services Committee; Councillors Bonnette and Serjeantson will serve on the Planning and Public Works Committee, while Coun. Johnston will serve on the Administration and Finance Committee.

Committee members meet every second week to consider staff recommendations on issues pertaining to the particular mandate of each committee.

In turn, committee members recommend to the full Regional Council what policy should be adopted.

In the end, however, Regional Council makes the final decision.