

The climate is right

Borrow low and invest high

Borrow low — invest high.

A solid financial principle, to say the least; however, it is only with the correct circumstances that this is possible. Such a climate of opportunity exists now.

With the "free fall" of the major chartered banks' prime rate (7.5% at the time of this writing) and the superb performances of a considerable number of investment funds, a real chance to "borrow low and invest high" really does exist!

Most individuals are concerned about debt. Interestingly enough, there is good debt and there is bad debt. Good debt usually creates wealth while bad debt worsens our financial picture. Many Canadians have thousands of dollars locked up in their principal residences waiting until the day of sale to realize a potential profit. Should real estate values increase, such a realization of profit is possible. After all, one of the few breaks our government gives us

is the tax free profit of the sale of our principal residence. But you do not have to wait to realize growth.

Let us assume that you borrow \$10,000 from a lender using part of the principal in your home as security. Today, you would be able to secure such a line at no worse than prime plus one per cent and in many cases at prime alone. This means that you would have \$10,000 to invest and pay only \$750 a year for the privilege.

Most loans of this nature allow you to repay only the interest portion of the debt on a monthly basis, equal to about \$62.50 a month. Because you are borrowing for the purpose of earning investment income, that \$750 is a tax deductible expense. At a marginal tax rate of 40% (everyone with income of \$29,000 plus has a marginal tax rate of 40% plus) the true cost of the loan is \$450.

Now let us invest that \$10,000. For a low risk, secure investment, it

would suggest a bond fund. Bond funds invest in Federal, Provincial and usually blue chip corporate bond issues with maturity dates anywhere from tomorrow to 30 years in the future. It is this averaging of maturities that make such funds secure.

The average Canadian Bond Fund in 1991 returned 17.52%. This means a \$1,752 profit against a \$450 expense. However, tax must be paid on the profit. Using a 40% marginal tax rate, you would pay \$700.80 for a net profit after tax of \$250.80. If you consider using funds with a degree of risk (one fund returned 86% in 1991) then your potential profit is that much higher.

Consider borrowing the \$10,000 and placing it in your RRSP. Unfortunately, the cost of borrowing for an RRSP is no longer deductible from income, however, the gain is tax sheltered as long as it remains in the plan.

It will cost you \$750 a year to borrow the funds at a 17.52% return tax sheltered, you are \$1,002 ahead on a straight line basis. Include the tax savings of \$4,000 at a 40% marginal rate of tax, and you are \$5,002 to the better.

Take this one step further, if you had invested in the 1991 highest earning eligible RRSP fund, your return would have been 39.79%. Combined, you would have been 7,229 ahead on a \$10,000 investment. Crazy? Like a fox!

This financial advice was prepared by Donaldson Bourgon Financial Services.

Maximizing your credits

CHARITABLE DONATIONS

Seventeen per cent of the first \$250 of donations are a credit against Federal tax. A further 29% credit for donations in excess of \$250 is available against Federal income tax. Generally, the amount of donation eligible for the credit cannot exceed 20% of net income in any one year. If you are making donations, ensure that one spouse makes all donations to maximize the amount at the 29% credit.

U.S. DONATIONS

If you are donating to U.S. charities, you are restricted to claiming a credit on an amount equal to 20% of your U.S. source income. However, donations to certain U.S. colleges and universities are not subject to this restriction.

OBTAIN A RECEIPT

In order to claim your charitable donation, you must include an official receipt with your personal tax return.

You do not have to donate cash to receive a donation receipt. Donations of property also qualify for this credit. The amount of that donation is usually the Fair Market Value of the property donated. Special rules apply in respect of Canadian cultural property. You can be creative in utilizing your capital gains exemption to create a large gain on the disposition of property which will entitle you to a large donation credit. In this method the income from the disposition is sheltered by the use of the capital gains exemption and you are entitled to a full donation receipt. The donation tax credit can thus be used against other taxes payable.

The implementation of any tax saving strategy is based on your personal financial situation. Professional advice should be obtained before implementing any of the suggestions contained herein.

You can discuss these and other tax planning ideas with your local partner who is affiliated with Leadley, Gunning & Culp International is a sophisticated management consulting group assisting accounting and tax professionals run more successful practices. In your area, your local partner is: Gunning O'Gorman & Sellors Certified General Accountants.

Legislation makes labour investment timing right

Canada's only national labour-sponsored investment fund is the first to participate in a new Ontario government program providing attractive tax credits for investment in the kind of emerging growth companies that can help stimulate the provincial economy.

New Ontario tax legislation now provides a 20% provincial tax credit, matching the 20% federal tax credit already in place, for investments of up to \$3,500 each year in a labour-sponsored investment fund. The provincial tax credits are retroactive to shares purchased after November 6, 1991.

In addition, Working Ventures shares are RRSP eligible and an individual who purchases these shares may transfer them to an RRSP and claim a deduction from taxable income.

Investors in Working Ventures gain an advantage of \$1,400 over other RRSPs on an investment of \$3,500. If you're in a 41.1% marginal tax bracket (and you only have to earn over \$28,785 in this province to be in this bracket) you will receive tax savings of \$1,438.50 for your RRSP deduction plus \$700 from the federal government and \$700 from the Province of Ontario in tax credits. That means a \$3,500 RRSP contribution in Working Ventures will result in total tax savings of \$2,838.50 for a net cost of only \$661.50.

The two-year-old Working Ventures Canadian Fund, sponsored by the Canadian Federation of Labour, is the world's first national labour-sponsored investment fund. All money invested in the fund, which is managed by a Toronto-based team of professionals, will be reinvested in promising, growth-oriented small and medium-sized Canadian businesses. Investments in the small business sector of the economy traditionally offer the potential for higher rates of return in return for acceptance of some additional risk.

"Tax credits are all well and good" says Ron Begg, President of Working Ventures "but what's most important is the performance of the fund." "Our objective" says Mr. Begg "is to maximize capital appreciation for our shareholders. To the extent we do this well, there will be by-products of investment in terms of jobs and exports that are of interest to the governments and the sponsor."

Jim McCambly, President of the Canadian Federation of Labour, sponsor of Working Ventures, points out that "the small business sector is the engine of growth in this country which can help drive us out of this recession."

Investors, attracted by the tax savings and return potential, have purchased \$5.1 million in shares since the fund was launched in March 1990. Shares initially offered at \$10 are now trading at \$11.67.

Shares are distributed to the public only by prospectus available through licensed stockbrokers.

This article was provided by Working Ventures Canadian Fund.

Feb. 29

1992

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LEARN: - 5 Mistakes to Avoid in RRSP choices in 1992.
- 4 Tax Deductions to get you more on your Paycheque



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DAVE TURNER B.A.

Entertaining International Speaker

Dave's direct, informative,
humorous style makes learning
entertaining

W.J. Briggs

President-Source Canada Inc

In 1991 we paid \$13,304 less tax thanks to Dave's instruction. In 1992 my take home pay will increase by \$1,182 monthly.

Pictor V. Barric, Ontario

FRI. FEB. 7TH

HUGH FOSTER HALL - next to Town Hall in Milton

REFRESHMENTS 7:15

WORKSHOP 7:30 SHARP

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