

Here's how to reduce the tax bill

If you're an investor, remember the old adage "a penny saved is a penny earned" when preparing your portfolio's year-end tax review. There are many ways to reduce the tax liability on your investments and when you use your options to save money you're achieving the goal of all investors: an increased rate of return.

Generally speaking, the first \$1,000 of Canadian investment income you earn is tax free. (This amount is reduced by any interest expense incurred to earn it.) Tax savings can be achieved by arranging your investments to make full use of this deduction. For instance, if you will not be receiving a full \$1,000 of investment income, you should look for ways of increasing the amount you can recognize. These include cashing eligible coupons that are due, or selling Canadian securities to realize capital gains. Tax-gain selling is beneficial in that there are no restrictions on buying back the securities, however inherent selling costs such as brokerage fees must be weighed against the tax benefits.

On the other hand, if you do expect to use the entire \$1,000 deduction, you may be looking for ways to reduce your personal investment income. In this case, tax-loss selling, or the planned disposition of a security in order to recognize a capital loss, may be to your advantage. However, unlike tax-gain selling, there are restrictions you have to take into account. You

cannot recognize a loss on a sale if you, your spouse or your company repurchases the identical property 30 days before or after the tax-loss sale.

An increasingly popular way of reducing investment income is through income splitting. Under the Canadian income tax structure, the more you earn, the higher your tax rate. Income splitting is a method of spreading family income amongst two or more family members to save taxes not only by allowing multiple use of the \$1,000 investment income deduction, but also by allowing the use of lower tax brackets and other deductions available to your spouse and children. While there are certain restrictions on how the income can be transferred, income splitting is generally beneficial to you if you have investment income greater than, or ineligible for the \$1,000 deduction, or if your spouse or children's income is less than the maximum amount that can be earned without reducing your exemption for them.

Time is also a management factor. While most individuals recognize investment income on a cash basis, it can also be recognized under the accrual or receivable method. You should consider the impact on your overall tax position when choosing the method you're going to use.

Another way of managing your investments to match the \$1,000 mark is through the use of an indexed security investment plan (ISIP). If you already own securities

and transfer them into an ISIP, they are considered to be disposed of at fair market value and required inside the plan. You may be able to realize a capital gain or loss without actually having to dispose of securities. However, as for a regular sale, where a loss arises on a transfer, it will not be recognized if the security is transferred back out of the plan or included in a non-arm's length sale within the next 30 days. On securities in an ISIP, 25 percent of accrued gains and losses are recognized

for tax purposes, whether or not the security is actually sold.

Interest expense is also a factor to consider when reviewing investment. It is generally deductible if it was incurred for the purpose of earning income, therefore you should try to arrange your borrowing and investing to convert non-deductible interest into a deductible expense. For instance, use your available cash to pay down personal debts, and borrow money for investment or business purposes. If you are

selling a home, and taking back the mortgage, arrange the sale so that your other interest expense, such as mortgage interest on a new home, is deductible.

If you're claiming deductions for interest expense on a paid basis, all necessary payments must have been made by December 31, 1984.

EDITOR'S NOTE: John Kane, C.A. is a resident of Unionville and a Partner in the Toronto office of Thorne Riddell, Chartered Accountants.



Markham Mayor Carole Bell (at right) officially opened Royal Acoustics and Accessories' new store in an industrial plaza on Esna Park Rd. last week. Also in the picture from the left are: Joe D'Andrea, sales manager; Peter Ignani, manager; and Antoinetta Ignani, owner. — Sjoerd Witteveen

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UXBRIDGE AREA FARM

98 acres, 65 working, mixed bush and pond. Barn, drive shed and a spacious 8 room house. Asking \$169,000. Doris Smith, 640-2223, 852-7605.

UXBRIDGE

3 bedroom brick bungalow, 2 baths, big kitchen, broadloom and fully finished basement. Paved drive, double garage, many extras. Asking \$89,900. Doris Smith 640-2223, 852-7605.

STOUFFVILLE \$89,900.
Older 4 bedroom home with pine floors, bay windows and updated kitchen and bathroom. Sunroom with walk-out to wooden deck overlooking the large back yard. Situated on a quiet street in older section of town. Nancy Wagg 640-2223, 640-4136.

NORTH OF UXBRIDGE

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