

Careful financial planning is required this year

While I have dubbed 1994 as the year to score the odds are that that is also Ottawa's strategy.

And, they have the upper hand unless we arrange our affairs so we start the year properly.

It will be almost impossible for them to increase taxes across the board in 1994. If you take even more money out of the economy there will be nothing left to stimulate it. As a result, I expect they will tie more tax deductions and especially social benefits to income levels.

Earn too much and you lose benefits.

The rationale, as we've written before, will be eliminate social benefits for those who can afford to get along without

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Your Money

Brian Costello

them.

Already the Old Age Security and Child Tax Benefits are "clawed back" once we exceed \$53,000 in net income.

The key then, should be to take advantage of every tax deduction possible to lower your Net Income. It's found at about the one-third point on page two of the new tax return. Every tax deduction used prior to this line will not only save you taxes but

also lower your net income.

At the beginning of the year though, it's important to use every deduction available for fear that they will be eliminated by the new government.

The \$100,000 tax free capital gains deduction is rumored to be on the hit list. We encouraged everybody to crystallize capital gains before the end of the year. If you didn't do so get it taken care of before the February budget.

If you sell at a profit and buy back the same or preferably similar investments you will have locked in your profits when they are still tax free but still own investments that you hope will continue to appreciate. You will only be taxed on the new appreciation.

The key strategy though

should involve your RRSP. Rumors are abound that the amounts we can contribute will be slashed. Before that happens it makes great sense to contribute the maximum so they can't take it away from you.

The first step then is to get in the maximum for 1993.

Step number two is to determine whether you can use the \$6,000 pension rollover to your spouse's RRSP.

If you receive corporate or personal pension income (no social pensions allowed) you are allowed to rollover any amount up to \$6,000 into your spouse's RRSP. There's some urgency here in that this rule expires in 1994.

There's also some double value here in that you get the tax deduction before the net income line and your spouse gets to use the money to produce a pension that will be taxed at his or her lower tax rate.

I also think it's imperative you contribute the 1994 maximum as well. I know there's a lot of money involved here when you combine 1993 and 1994 contributions but we're

looking at a defensive strategy.

If you contribute the maximum now for 1994 it's hard to believe they can take it away from you.

If they don't reduce the limits you can always remove some of the money inside your RRSP.

All you have to do is pay a withholding tax. It will be used to reduce your quarterly tax bill or your final taxes owing. In the meantime, you will earn tax free income inside your plan.

Some seniors have a chance for a windfall they do not believe is possible. We all believe we are no longer allowed to claim a contribution to an RRSP once we turn 71.

That is not true. We are, for example, allowed to overcontribute up to \$8,000 during our lifetimes to an RRSP. If you get it in before you turn 71 you can use it as a tax deduction in subsequent years.

If after age 71 you have salary, consulting income, rental income, you will be able to declare the undeducted funds inside your RRSP.

Take advantage of whatever is available before it disappears.

TEACHERS

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financial planning workshops to be held in Richmond Hill, Metro-Toronto, Ottawa, Burlington and St. Catharines on Saturday mornings in January and February. These workshops will be conducted by Fred Allen and Sal Pengeley former elected members of the Teachers' Superannuation Commission. For more information on these workshops please see the display advertisements in the Sunday, Jan. 2nd, issue of the Toronto Star or the Monday, January 10th issues of the St. Catharines Standard and Hamilton Spectator or call 1-800-267-5478 toll free. Callers from the Metro-Toronto area should call 905-731-1164.

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