

\$MONEY TALKS\$

Capital gains election can help shelter mutual fund profits from taxation

Many investors jumped on the mutual fund bandwagon in the early 90's, enticed by the prospect of higher earnings than were generally available elsewhere. Some just as quickly jumped off when the ride got bumpy, and switched their money back to safer, more predictable investments. However, a good many investors hung on. If you are one of those, and you were lucky enough to have entered the market before it heated up, you may have unrealized capital gains in your mutual fund accounts. If you have not used up your capital gains exemption, you can use the capital gains election to shelter these accrued gains from tax.

Taxation of mutual funds

Most mutual funds are organized as trusts, which means that income earned by the fund is flowed through to the investor and reported yearly on an information slip. You may receive various types of income from a mutual fund: interest from money on deposit or invested in interest-bearing investments; dividends from stock owned by the fund; or capital gains from the buying and selling of stocks and other securities by the fund itself. This income is paid to the investor in cash or, more frequently, is re-invested in the fund to buy more units. These transactions are easy to handle tax-wise, as the information slips summarize each of the various types of income for the year.

Things are more complicated when you actually sell or redeem the fund units themselves. The units may have gone up or down in value since you bought them, resulting in a capital gain or loss. This gain or loss is not reported

on a slip, but must be calculated using the account statements issued by the fund over the years. To do this, add up the purchase price of all the units you bought, plus any acquisition or brokerage fees you paid to buy them. Don't forget to include the value of all your re-invested earnings. This forms the adjusted cost base of your units. Calculate your capital gain or loss by subtracting the adjusted cost base of the units you sold and the selling fees from the selling price.

Making the election

If you own mutual fund units which have increased in value as of February 22, 1994, you can shelter the accrued gain by making the capital gains election. To do this, calculate the accrued gain as of February 22, 1994, using the method explained above. For example, assume you paid \$10,000 to buy 1,000 units in 1993, and paid an additional \$100 in acquisition fees. Assume that you re-invested your 1993 earnings of \$1,500 to buy an additional 140 units. Your adjusted cost base is now \$11,600 for 1,140 units. If your units were worth \$12,800 on February 22, 1994, you had an accrued gain of \$1,200. You can shelter this amount from tax by making an election and designating \$12,800 as your elected proceeds to trigger a capital gain of \$1,200.

You can then use your capital gains exemption to shelter the amount from tax.

The effect of the election, however, does not increase the adjusted cost base of the units, as it does for shares. Instead, the sheltered gains go into a pool called the "exempt capital gains balance."

This pool can be used to shelter any future capital gains arising from the mutual fund up until the year 2004, whether by way of T3 distribution, or from actually selling units of the fund itself. To continue out this example, if the fund distributes capital gains of \$300 in 1995, these can be sheltered from income by using \$300 of the exempt capital gains balance, reducing it to \$900. Then, in 1996, if you dispose of half the units and realize a capital gain of \$500, this too can be sheltered from income, reducing the exempt capital gains balance to \$400. This continues until your exempt gains balance is zero, or until the year 2004, whichever comes first.

If you ever sell any of the units at a loss, the exempt capital gains balance is not affected. However, once all the units of the fund are disposed of, the exempt capital gains balance is deemed to be nil, even if it has not all been used up. There is no way to recapture the balance or to use it against gains from other sources.

If you invested in more than one mutual fund, you will have a separate exempt capital gains balance for each one. This means you will have to set up a good record-keeping system to keep track of your various accounts and balances. RRSP mutual funds. You cannot make an election with regard to any mutual funds held inside an RRSP, as all income earned inside the RRSP is already exempt from tax. A mutual fund is similar to any other RRSP investment vehicle, in that all contributions and earnings are tax-free until withdrawn.

This is one in a series of articles dealing with tax matters. The articles are written by H&R Bloch Canada, Inc., Canada's largest tax service.

RRSP'S ONE-STOP SHOPPING

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Obituary

Watson a respected educator

Stouffville education legend Cedric Watson has died in his 100th year.

Watson, who from the age of 17 through his retirement at the age of 60 was lead teacher and then principal at Stouffville Public School, died Feb. 5 at his residence at Parkview Home.

A respected mathematics and grammar instructor, Watson wrote a mathematics work book which was used by Grades 7 and 8 students. He was noted for his disciplinary approach to education during his 43 years at the local school, now called Summitview Public School.

According to Lorne Boadway, who took over as principal when Watson retired in 1955, his predecessor was a respected educator who

believed in the drill system of learning.

"He sure knew his academics, and he was very well respected by parents. They felt that if anyone was going to lead their children into entrance (tests to high school), Cedric would," said Boadway, who was a student of Watson's in Grade 8 at the Stouffville school.

Boadway said Watson avoided the limelight and wanted to be left alone to run the school his way. "He stayed pretty much to himself and he resented outside interference from the home and school association. I think the Stouffville Public School Board respected Cedric enough that they left him on his own."

Watson also had a slightly

eccentric nature, said Boadway.

He would have his students do writing exercises to the beat of old records played on his gramophone, which he would run to the front of the class and wind up as it slowed down.

Born and raised in the Goodwood area, Watson continued to live with his brother Carl, now deceased, on Ninth Line S. until well after his retirement. He lived on his own until taking up residence at Parkview Home in July 1993.

He is survived by a cousin, Herb Hoover, of Alliston. Service and committal was at O'Neill Funeral Home Feb. 9. Watson will be buried at the Goodwood Cemetery this spring.

People

Brooks committed to helping diabetes, osteoporosis patients

Bruce Brooks, chief of internal medicine at Markham Stouffville Hospital, considers himself very fortunate to be associated with the facility.

Brooks is proud of the wide range of specialties and sub-specialties offered at the hospital. "We have (representatives of) just about every sub-specialty including a respirologist, infectious diseases expert, cardiologist, neurologist, rheumatologist, oncologist, gastroenterologist, and endocrinologist, which is my specialty."

"For a hospital of this size, we're very lucky to have all these areas covered." His own area of expertise covers two diseases which affect large numbers of people: diabetes and osteoporosis.

"There are two types of diabetes and the adult onset type is called type II," explained Brooks. "It's the

type which is increasing in incidence, and world-wide it's almost considered to be an epidemic."

The reason, he said, is that the disease is environmentally induced by such factors as diet, weight and lifestyle. Although diabetes has a tendency to run in families, people can minimize the risk by watching their weight and modifying their diet.

"Type II diabetes is controllable. With diet, weight reduction and exercise most patients can get their blood sugars back to the normal range," Brooks advised.

The biggest fear among patients is that they will be affected by long-term complications, such as blindness, heart and kidney disease and neuropathy, a condition which is characterized by loss of sensation in the feet.

However, recent North American trials of type I, or insulin-dependent diabetes, showed that bringing blood sugar to acceptable levels produced a reduction in the progression of all complications by 50 to 70 per cent over 10 years.

"That gives diabetes a great deal of hope that, if they do put in the effort to control it, there will be real benefits to them."

Type I usually surfaces in childhood, although it can start as late as the early 30's, said Brooks. "We don't actually know the cause of it, but there is a genetic predisposition for development of the disease and we think there may be an environmental trigger."

A recent study at the Toronto Hospital for Sick Children gave rise to concerns that the introduction of cow's milk into the diet at an early age may be a contributing factor for people who have a predisposition to diabetes.

As a result, doctors are recommending that mothers with a family history of the disease should breast feed their babies for a longer period of time, said Brooks.

Osteoporosis, or loss of bone density, is a disease closely associated with post-menopausal women. "The most bone mass you will ever have in your life peaks at around 25," said Brooks.

"From there, you lose about point three per cent per year of bone density. The problem is, when women reach menopause, the percentage of loss accelerates to two per cent per year for seven years and then goes back to the previous rate for the rest of your life."

As a result, many older women have brittle bones and the risk of fractures and resulting complications increases dramatically.

"In a way, it's a silent killer," Brooks observed, adding that estrogen replacement therapy has proved to be highly effective in slowing down the loss of bone density.

"Estrogen is an insurance policy to keep calcium in your bones longer and probably one of its major benefits is the prevention of osteoporosis. The other benefit is a reduction in the incidence of coronary artery disease."

Most women who take estrogen also feel better. "All women should check with their family doctor to see whether they are a candidate for treatment," he suggested.

"As for concerns about increased risk of breast and uterine cancer, there has been no conclusive evidence either way."

"A lot of women don't want to go on estrogen replacement because they think they're going to have periods, but that doesn't have to be the case."

Factors which can contribute to the disease are smoking, lack of exercise, anorexia and early menopause.

A diet rich in calcium and vitamin D, with calcium supplements if necessary, is very important.

A new drug, edronate, has proved effective in stimulating calcium production to increase bone mass by five to 10 per cent, said Brooks.

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NOTICE TO PARENTS

(Term 1, Report Cards Distributed, Thursday Feb. 16)

PARENTS NIGHT

Tuesday, February 21, 7:00-9:00 p.m.

*Subject selection for 1995-96 Course Work - March 8, 1995

Alan Dickson 640-1433 Jay Hooper
Principal Fax: 640-1475 Vice-Principal

TOWN OF WHITCHURCH-STOUFFVILLE

TOWN OF WHITCHURCH-STOUFFVILLE
1995 INTERIM TAX BILLS
1st Instalment Due - February 17, 1995
2nd Instalment Due - May 19, 1995

INTERIM TAX bills have now been mailed. Ratepayers who have not received their bills should make immediate application to the Municipal Tax Department.

THE PENALTY charged for non-payment of 1995 taxes is one and one-quarter (1-1/4%) percent imposed on the first day of default and on the first day of each month thereafter.

FAILURE TO receive a tax bill does not eliminate the responsibility for payment of taxes nor the penalty charges for later payment.

TAX PAYMENTS may be made by mail, or in person at the Town Office and at the following C.I.B.C. locations:

Stouffville 6311 Main Street
Aurora 15195 Yonge Street
Newmarket Yonge & Davis Drive

Bank payments are to be made to a C.I.B.C. teller only during regular business hours. Payments will not and cannot be accepted through the instant banking machines. Individual banking fees may apply.

TOWN OFFICE HOURS:
MONDAY TO FRIDAY 8:30 a.m. to 4:30 p.m.
640-1900 ext. 895-2423

Box 419, 19 Civic Avenue, Stouffville, Ont. L4A 7Z6
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