

# Taking time now can save taxes in the future

Now that tax season is done you might want to spend a few minutes going back over your tax return. I'll bet you can save a few dollars on last year's return now that the pressure is off. And I know that you can save a lot of money in the future by taking a few minutes now to use last year's tax return to help you save taxes in future years.

This chore is made even easier if you used a computer software program when you completed your return. Or now that the pressure is off you might want to pick up a software package and enter last year's return. Now that the deadline has passed you should be able to get a great deal on this type of software.

One definite should be to re-assess your mix on investment income. All interest is totally taxable. The capital gains deduction has now been eliminated. Dividends qualify for the dividend tax credit. However, with the \$100,000 capital gains holiday now gone we have to use different calculations when we do this re-assessment. The computer makes it an easy chore.

Capital gains will still be a hot item. Even though the \$100,000 deduction is gone, only 75 per cent of any capital gains are taxable. As an exercise, look at the interest income you declared on line 121 of your return. Calculate 25 per cent of it and deduct that amount from your taxable income. Then you can use the tables to see how much tax you would have saved had you earned the same amount of capital gains.

Don't forget, also, that while interest must be declared as earned every year even if you didn't get the money, capital gains can be compounded into the future as long as you wish. Until you sell the investments or die, there is no tax on capital gains. It's this long-term compounding that will make capital gains an attractive alternative in future years.

Many people though, need a regular income. That's one of the reasons why they choose interest-bearing investments. The other reason, of course, is the guarantee that often accompanies term deposit type investments. If you need a regular income, now's the time to compare what your tax bill would have been had you earned a similar amount of

dividends rather than interest. You see, dividends from Canadian stocks and mutual funds qualify for the dividend tax credit. It is a reduction in the tax you pay on this type of income because the company that issued the dividends already paid some tax. The key thing to remember is that this is not a tax deduction. It is an outright tax reduction. If you owe Ottawa \$100 and you have a \$100 dividend tax credit, you owe no tax at all. In fact, if you owe Ottawa nothing, in most cases you also owe the province nothing.

A taxpayer who has only one source of income - that is, he or she has no salary, no pension, no government benefits - can earn as much as \$23,000 in tax free dividends each year. By combining your personal deduction and the dividend tax credit, you will wipe out your federal tax. Once you owe nothing

## Your Money



Brian Costello

The big stumbling block for most is that you have to "gross up" the dividends you earned before declaring them on your return. For example, if you earned \$560 worth of dividends you must declare \$700 on your return. It's natural to balk at that thought. However, in this case, you get a dividend tax credit of \$93.33 against your federal tax bill and of course, that reduces the base on which you pay provincial taxes.

The other consideration, of course, is safety of your money. Well, interest rates are falling while dividend yields are rising. But, it's the high quality companies that are increasing their yields. If you buy a term deposit from a bank, you should compare the after-tax yield on your interest to the after-tax yield on the bank's divi-

to Ottawa in most cases you owe nothing to the province either. But, now's the time to make the comparison.

dend paying shares. You might be in for a surprise. Now's the logical time

to do this assessment or have a financial planner do it for you.

## MARKHAM SHOW & SHINE

# JUNE 4th '95

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**RAIN DATE:**  
Sunday, June 11, 1995

- Attache Bags to the first 500 Registered
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- Registration: 9:00 am - 11:00 am
- Show Time: 11:00 am - 5:00 pm
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REGISTRATION FEE - \$15 (includes insurance)

FOR MORE INFORMATION:  
Call Mon - Fri, between 9 am & 5 pm  
Frank Pantaleo (416) 291-2092  
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MARKVILLE SHOW & SHINE

### DON VALLEY NORTH LEXUS - TOYOTA ATHLETE OF THE WEEK



**JENNIFER SKINNER**  
Jennifer Skinner ruled the waves at this year's Markham Aquatic Club's annual Invitational Swim Meet. The 10-year old Markham resident, who swims for the Markham Aquatic Club, outscored all 385 competitors ranging in ages from 10 to 19. Skinner swam her way to four gold medals, three silvers and two bronzes. When she's not swimming, Skinner also takes to the ice where she performs for the Markham Thunder minor atom selects hockey team.

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