

Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

WINTER 2010 NEWSLETTER

Carl Eppstadt, CLU, CHFC, CFP, CHFS

Carl's Comments

Happy Holidays!

This was a year that included many changes, not only in world markets, but also here at Future Financial. One of the most significant changes is that after 15 years of dedicated service as our office manager, Roxanne Sterling has decided to retire. We wish Roxanne all the best as she embarks to advance her volunteer work, and spend more time with her four lovely grandchildren.



Kristin, Carl and Julie

We have assembled a new team that consists of my two daughters; Julie Westall comes to us from RBC Dominion Securities where she has worked for the past decade. Julie will assume the position of Vice President of Future Financial. Kristin Eppstadt also comes to us from RBC Dominion Securities where she has been working for the past 12 months. Welcome aboard ladies and I look forward to working with you. I'm sure all of you will welcome them when you call or visit us in the near future.

In preparing this newsletter, I reviewed where we were at this time last year and it was a very scary time for investors which caused some to behave irrationally. The good news is that the lion's share of our clients believed that the markets would

turn around and they welcomed our advice, kept a cool head and stayed with the program. I'm happy to report that the TSX is up 35% from last January. Yahoo! The bad news is that very few people took advantage of a massive fire sale opportunity in the equity market.

No doubt it was a scary time for the entire world and I think it emphasized the importance of dealing with someone who can think rationally when the world seems to be falling apart.

There are two recent surveys indicating that Canadians who have financial advisors are doing a better job navigating through the financial currents. One was sponsored by SunLife Financial and conducted by Fleishman Hillard Canada. They found that 86% of Canadians with financial advisors felt that they are making better decisions about their finances as a result of their advisors help. The other survey conducted by Ipsos-Reid for Royal Bank of Canada found that many Canadians struggle to be disciplined savers and are not taking advantage of basic financial planning techniques, such as paying themselves first and having a step-by-step plan to reach important financial milestones.

According to the SunLife survey results, although many Canadians feel they have to work longer than planned to provide for their retirement, those with advisors have a leg up. SunLife's survey indicates that only 37% of respondents with advisors expect to work longer than planned. In contrast, the same survey found that almost half of those without advisors believe they will have to delay retirement and work longer. The survey also recognized a strong correlation between respondents with an advisor and the level of confidence in the future. With the help of professional advice, clients are more likely to take action to put a financial plan in place. An advisor can break a plan down into manageable steps and determine a process for meeting the client's needs. Without an advisor many people who have the desire to organize their financial life simply don't get around to putting their thoughts into action. Financial planning may be overwhelming, confusing and people may feel they lack an understanding of financial products and are uncertain where to begin.

An Advisor will work with a client to determine their goals and needs, and will provide access to appropriate solutions for positive change. The SunLife survey shows that half the respondents who don't work with an advisor are likely to miss out on valuable guidance, greater financial security and peace of mind.

The RBC poll found that one third of Canadians are channeling less money into savings than in the past, and only one in five are saving more money. The same poll questions people specifically about their ability to budget and add regularly to savings. Most people have not developed the good habits necessary to build savings according to the poll. Approximately 60% of respondents said it was difficult to stay focused on saving money.

So, not much has changed from the Dunbar survey done in 1995, where it found do-it-yourself investors failed to achieve the results experienced by investors with advisors. Why you ask? Simply put, they do not have a financial plan, in addition, they make poor market timing decisions, participate in panic selling. and continue to buy high and sell low.

As experienced financial planners we provide high quality financial, estate, tax and retirement planning strategies. We feel it's possible to enhance retirement income by maximizing investment returns and minimizing tax. We seek out to find tax-advantaged products that have below average risk and consistently above-average performance. In addition, we attempt to maximize estate values by minimizing tax, legal and probate costs.

So get in line if you have any interest in a comprehensive financial, retirement or estate plan. We are happy to provide this value added service for all who receive this newsletter.

their collective experience with thousands of personal tax returns.

1. RRSP overcontributions.

The number one item for 2010 is the review of RRSP contributions and examination of overcontributions. This project is a national initiative and a large number of taxpayers are affected. The amounts involved are typically small, but this is a cumbersome process usually involving more than one taxation year.

2. Carrying charges, particularly interest on investments.

Taxpayers must provide supporting documentation and clearly establish the purpose of the loan and use of the borrowed funds.

3. Capital gains and losses.

The historic review of capital gains and losses reported over a number of years is getting more attention. Generally speaking, this review is not undertaken at the time of filing but after the Notice of Assessment has been issued.

4. Charitable donations.

Review of charitable donations continues. Large charitable donations paid in kind, rather than in cash, seem to be automatically reviewed. Certain donation strategies that are promoted remain questionable, and taxpayers should be wary of them.

5. Moving expenses.

Reviews of moving expenses tend to focus on large amounts claimed, as well as possible unreported reimbursement of moving expenses by an employer. Canadians are moving more often than in the past, so it is not surprising that this issue is attracting heightened interest.

6. Insufficient or late quarterly installments.

Penalties are being applied more frequently in these cases.

7. Arrears interest.

Some returns are assessed very quickly (within two weeks of filing), before the tax payment that accompanies the return has been recorded. As a result, Notices of Assessment charging arrears interest are being issued where no such interest should be charged. This situation typically self-corrects, but many taxpayers are understandably perplexed on receipt of the original notice of assessment, especially if the cheque has been cashed!

8. Medical expenses and disability claims.

These continue to generate requests for additional information, generally to ensure

T he CRA "Top Ten"

We often get asked the question: "What items are most likely to be audited by the Canada Revenue Agency (CRA)?" Although we would all like to know the answer to that question with certainty, it is one that is notoriously difficult to predict. However, Deloitte & Touche LLP has compiled a list of items most likely to be questioned on tax returns. This information, obtained from their practitioners across the country, was based upon

that the statutory requirements are being met. Interestingly, a more open approach seems to be the order of business for disability claims.

9. Tax shelter claims.

These claims are frequently reviewed, including flow-through share tax credits, losses from limited partnerships, exploration and development expenses, and various provincial credits on these types of investments. These investments are complex, and proper reporting can be a challenge, leading to errors that the tax authorities will detect during a review.

10. Unreported income.

Scrutiny of unreported income seems to have risen and penalties are more often charged in situations where small amounts are unreported or reported late. For example, many taxpayers, particularly pensioners, receive numerous slips for investment income, some of which arrive after they have filed their return. It is wise to amend the return to report these amounts, however small to reduce the risk of being charged a penalty.

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Proposed changes to CPP

On May 25, 2009 the Department of Finance Canada announced some proposed changes for the Canada Pension Plan that would promote longer careers. The changes are proposed to be phased in from 2011 to 2016, so they will affect anyone planning to retire after 2010.

- a) **Early retirement** (before age 65) = **lower payments**. CPP benefits will be reduced by 7.2% for each early year (6% under the old rules). This means that if you start collecting CPP at age 60, your payments will be 36% less (30% under the old rules) than if you wait until age 65.
- b) **Late retirement** (after age 65 but before age 71) = **higher payments**. CPP benefits will be increased by 8.4% (6% under the old rules). This means that if you wait until age 70 to take your CPP, the benefit payment will be 42% higher (30% under the old rules) than if you wait until age 65.
- c) Those who are **still working, under 65, will be able to collect CPP**. Previously 2 months of unemployment (or greatly reduced income) would be required to qualify. For example, clients may choose this option in a recession when they have to take new employment that does not pay as

much as their last job, and require an income supplement.

- d) Those who are **still working, over age 65, collecting CPP**, will be able to make **voluntary contributions into CPP** through their work to increase their benefits.
- e) The calculation for CPP will change as well – currently the lowest 7 years of earning is deleted from the calculation. Under the proposed changes, the **lowest 8 years will be omitted** so that the benefits are not weighed down by low earning years.

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FSA details at a glance

A Tax-Free Savings account (TFSA) can help you grow your savings faster than an ordinary savings account.

- No taxes payable on investment income and growth even at withdrawal.
- Contribution limit of \$5,000 per year with unused room carried forward to future years.
- Can hold almost any kind of investment.
- Withdrawals do not count as income, and will not trigger government benefit clawbacks or affect tax credits.
- Available January 1, 2009, to Canadian residents age 18 or older.

A reminder that the RRSP deadline is March 1st, 2010. Please call (613-728-0589) or email us (epstadt@futurefinancial.com) if you have any questions or concerns.

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