

Your Money and Taxes

Financial Planning

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Niall C. Murphy, CFP, CLU, CHFC

John C. Murphy, CFP

Agenda

- Your Financial Lifecycle
- Risk Management
- 2008 Tax Tables
- Non-registered Investments
- 2008 Tax by Income Type
- Registered Investments
- Retirement Planning
- Tax Saving Ideas
- Estate Planning

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Your Financial Lifecycle

Lifecycle Periods	Age	Financial Profile
Early Career	25 – 40	Debts: Mortgage, etc.
Mid-career	40 – 50	Debt Elimination
Accumulation	50 – 65	Peak Savings Period
Pre-retirement	63- 65	Retirement & Estate Planning
Retirement	Age 65+	Health and Lifestyle Changes

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Risk Management

- Insure Against Risks
 - Life & Disability Insurance
 - Critical Illness & Extended Care
 - Vehicle Insurance – ICBC
 - Home Owner Insurance
 - Business Insurance
 - Buy/Sell Insurance
 - Out of Province/Country Medical

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2008 Tax Tables

2008 Taxable Income			Federal Tax Rate	BC Tax Rate	Combined Total
\$0	-	\$35,016	15.00%	5.06%	20.06%
35,016	-	37,885	15.00%	7.70%	22.70%
37,885	-	70,033	22.00%	7.70%	29.70%
70,033	-	75,769	22.00%	10.50%	32.50%
75,769	-	80,406	26.00%	10.50%	36.50%
80,406	-	97,636	26.00%	12.29%	38.29%
97,636	-	123,184	26.00%	14.70%	40.70%
123,184	-	Plus	29.00%	14.70%	43.70%

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Non-registered Investments

- **Types of Investment Income**
 - **Interest,**
 - Taxed at your marginal rate
 - **Capital Gains**
 - 50% Tax free
 - **Canadian Dividends**
 - Public corporations
 - Eligible Dividends
 - Private corporations
 - Regular Dividends

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Investment & Regular Income Fully Taxed

- Interest Income
- Employment Income
- Net Business Income
- Pension Income
- RRSP & RRIF Income
- Net Rental Income (passive)

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Capital Gains Income

- 50% of Your Capital Gain is tax-free
- You decide when to trigger the gain
- Capital losses are deductible against gains – back 3 years, forward indefinitely
- Principal residence is tax-free
- \$750,000 exemption
 - Sale of shares of a Canadian Controlled Private Corporation (CCPC)
 - Qualified farming or fishing property

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Eligible Canadian Dividends

- Dividends from Canadian public corporations
 - Gross up 45%
 - Federal tax credit 18.9655%
 - Of the grossed up amount
 - BC tax credit 11.0%

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Regular Canadian Dividends

- Dividends from Canadian private corporations
 - Gross up 25%
 - Federal tax credit 13.33333%
 - BC tax credit 4.20%

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2008 Marginal Tax by Income Type

2008 Taxable Income			Regular Income	Capital Gains	Eligible Dividends	Regular Dividends
9,601	-	16,460	15.00%	7.50%	0.00%	2.08%
16,461	-	16,947	19.28%	9.64%	0.00%	2.08%
16,947	-	28,852	23.26%	11.63%	0.00%	6.03%
28,853	-	35,016	20.06%	10.03%	0.00%	2.08%
35,017	-	37,885	22.70%	11.35%	0.00%	5.33%
37,885	-	70,033	29.70%	14.85%	4.40%	14.08%
70,033	-	75,769	32.50%	16.25%	4.40%	17.58%
75,769	-	80,406	36.50%	18.25%	10.20%	22.58%
80,406	-	97,636	38.29%	19.15%	10.62%	24.82%
97,636	-	123,184	40.70%	20.35%	14.12%	27.83%
123,184	-	Plus	43.70%	21.85%	18.47%	31.58%

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Registered Investments

- Registered Education Savings Plans (RESPs)
- Registered Pension Plans (RPPs)
- Registered Retirement Savings Plans (RRSPs)
- Registered Retirement Income Funds (RRIFs)
- Life Income Funds (LIFs)
- Tax free savings accounts (TFSA) – **New**
- Registered Disability Savings Plan (RDSP) - **New**

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Registered Education Savings Plans

- **Subscriber:** Usually parents or grandparents
- **Beneficiary:** Under age 21
- RESP Maximum Contributions after 2006 \$50,000
- Canada Education Savings Grant (CESG)
 - 20% of contributions – p.a. maximum \$500
 - Lifetime maximum \$7,200
 - Additional 20% CESG – family income <\$37,178
 - Additional 10% CESG – family income <\$74,357
- Canada Learning Bond (CLB)
 - Up to an additional \$2,000 – family income test

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Registered Pension Plans

- Registered Pension Plans are usually sponsored by an employer or union
- Two Types
 - **Defined Benefit (DB):** At retirement you will receive a specific pension based on your pensionable income and years of service.
 - **Defined Contribution (DC):** At retirement the amount of pension is based on the accumulated value of the contributions plus earnings in the plan
- Most public plans, municipal, teachers, etc. are **DB** plans

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Registered Retirement Savings Plans

➤ Maximum Contribution Room

- 18% of earned income to a maximum of:

– 2007	-	\$19,000
– 2008	-	\$20,000
– 2009	-	\$21,000
– 2010	-	\$22,000

Less: Your annual Pension Adjustment (**PA**)

- Unused contribution room may be carried forward
- RRSP loan interest is not deductible
- Contributions end the year you turn age 71
- Contributions may be to a spousal RRSP

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Registered Retirement Income Funds

- Used to turn RRSPs into income
 - You may transfer RRSPs to a RRIF at any age up to age 71
 - RRIFs have a minimum annual withdrawal
 - Initially you may use your own age or your spouse's age to calculate the minimum withdrawal
 - The minimum annual withdrawal up to age 70 is calculated as follows: $1 \div (90 - \text{your age})$
 - From age 70 plus, Canada Revenue Agency (CRA) uses a prescribed table

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RRIF Table (“Other”)

Age	Minimum	Age	Minimum
65	4.00%	80	8.75%
66	4.17%	81	8.99%
67	4.35%	82	9.27%
68	4.55%	83	9.58%
69	4.76%	84	9.93%
70	5.00%	85	10.33%
71	7.38%	86	10.79%
72	7.48%	87	11.33%
73	7.59%	88	11.96%
74	7.71%	89	12.71%
75	7.85%	90	13.62%
76	7.99%	91	14.73%
77	8.15%	92	16.12%
78	8.33%	93	17.92%
79	8.53%	94 +	20.00%

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Life Income Funds (LIFs)

- Used to create an income for funds transferred from pension plans and locked-in RRSPs
 - Usual minimum issue age is 55
 - The minimum annual withdrawal is the same as a RRIF
 - A LIF has a maximum annual withdrawal based on a table published annually by FICOMM

Example Age 65

- Minimum withdrawal 4.0%
- Maximum withdrawal 7.2%

- BC no longer requires annuitization at age 80

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Tax Free Savings Account (TFSA)

➤ Available January 1, 2009

- Canadian residents age 18 +
- Annual contribution room: \$5,000
- Carry forward unused contribution room
- Interest and capital gains are tax free
- Withdrawals are tax free
- Withdrawals of both income and capital are added to your contribution room the following year

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TFSA - example

YEAR	DEPOSIT AMOUNT	INTEREST 4.00%	ACCOUNT BALANCE
1	\$5,000.00	\$200.00	\$5,200.00
2	5,000.00	408.00	10,608.00
3	5,000.00	624.32	16,232.32
4	5,000.00	849.29	22,081.61
5	5,000.00	1,083.26	28,164.88
6	5,000.00	1,326.60	34,491.47
7	5,000.00	1,579.66	41,071.13
8	5,000.00	1,842.85	47,913.98
9	5,000.00	2,116.56	55,030.54
10	5,000.00	2,401.22	62,431.76

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Disability Savings Account (RDSA)

- **Registered Disability Savings Account**
 - To be available December 1, 2008?
 - Persons under age 60 who qualify for the disability tax credit, (T2201.)
 - Lifetime contribution limit \$200,000
 - Canadian Disability Savings Grant (CDSG)
 - Lifetime maximum \$70,000 - before age 49
 - Canada Disability Savings Bond (CDSB)
 - Lifetime maximum of \$20,000 - before age 49

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RDSA Grants

- Canadian Disability Savings Grant (CDSG)
 - Based on income test
 - Family Income <\$75,770
 - First \$500 – \$3:1 – maximum pa \$1,500
 - Next \$1,000 – \$2:1 – maximum pa \$2,000
 - Family Income >\$75,770
 - First \$1,000 - \$1:1 - maximum pa \$1,000
- Canada Disability Savings Bond (CDSB)
 - Family income \$21,287 - \$1,000 pa
 - Family income \$21,287 - \$37,885 – see CDSA

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Retirement Planning

➤ Options

- Life Annuity – fixed income for life, example pension – minimum guarantees
- Fixed income investments – term deposits, bonds, real estate rentals, etc.
- Balanced – combination of fixed term investments and equities
- Canadian Equities – Large capitalization Canadian equities.
- Canadian and Global Equities

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Accumulation Scenarios

\$100,000 Investment

Year	Scenario 1	Scenario 2	Scenario 3
1	7.00%	9.90%	-7.00%
2	7.00%	14.00%	-4.00%
3	7.00%	13.00%	21.00%
4	7.00%	23.00%	-1.00%
5	7.00%	-4.00%	10.00%
6	7.00%	10.00%	-4.00%
7	7.00%	-1.00%	23.00%
8	7.00%	21.00%	13.00%
9	7.00%	-4.00%	14.00%
10	7.00%	-7.00%	9.90%

10 Years	7.00%	7.00%	7.00%
Value	\$ 196,715	\$ 196,715	\$ 196,715

The rate of return is the same for all 3 after 10 years

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Investment Mathematics

Withdrawals

	Scenario 1	Scenario 2	Scenario 3
Start Balance	\$100,000	\$100,000	\$100,000
Income p.a.	\$7,000	\$7,000	\$7,000
Return 7%	Same as Previous Slide		
10 Year Total	\$70,000	\$70,000	\$70,000
End Balance	\$100,000	\$112,528	\$83,586

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Cash Wedge

- **Income Withdrawals**
 - Set aside fixed income for immediate withdrawals
 - Balance funds for near term
 - Canadian equity for long term
 - International for long-long term

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Cash Wedge - Time Horizon

Risk & Investments:	Risk	Horizon	Plan
Term Deposits, GICs, T-Bills, Short Term Bonds	1	1 - 5	25.00%
Deferred Annuities, CSBs, etc.	1	1 - 5	10.00%
Dividend Funds	2	3 - 7	10.00%
Balanced Funds	2	3 - 7	25.00%
Long Term Bonds, Mortgage Backed Securities	3	4 - 10	
International Balanced	3	4 - 10	
International Bond	4	5 - 10	
Canadian Equity - Large Cap.	4	5 - 10	20.00%
Foreign Equity - Global Large Cap.	4	5 - 10	10.00%
Canadian Equity - Small to Mid Cap.	5	6 - 10	
Foreign Equity - European	6	7 - 10	
Foreign Equity - USA & North American	7	7 - 10	
Specialty Funds	8	8 - 12	
Labour Sponsored Funds	9	9 - 15	
Asian & Far East Equity	10	10 - 15	
Emerging Markets - Latin America	10	10 - 15	

Risk: 1 = Least Risk; 10 = Most Risk

Horizon: Investment Horizon in Years

Plan: Recommended Asset Allocation over the next five years

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Tax Saving Ideas

- Pension Splitting
 - Pension Income Credit
- Charitable Donations
 - Combine and/or carryforward
- Medical Expenses
 - Combine

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Pension Splitting

- Introduced in 2007 tax year
- RPP may be split with spouse
- RPP recipient moves to a lower bracket
- Creates income that qualifies for the pension tax credit -\$2,000
- Reduces clawbacks

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Charitable Donations

- **First \$200**
 - Tax credit at the lowest tax bracket
- **Over \$200**
 - Tax credit at the highest tax bracket
- May be carried forward 5-years
- Usually combined and claimed by the higher income spouse
- No capital gain on donated securities

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Medical Expense

- First 3% of your net income non-claimable to a maximum of \$1,962
- Combine expenses and claim by the lower income spouse
- Claim the best 12 consecutive months in the past two calendar years.
- **Form T2201 – Disability Tax Credit**
 - Claim additional medical expenses
 - Claim nursing home care

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Estate Planning

➤ Estate Planning Tools

- Will
- Beneficiaries
- Life Insurance
- Charitable Gift Planning
- Joint Ownership

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Wills

➤ Basic Estate Planning Tool

- Usually drawn by a lawyer or notary
- Must be valid
- BC Wills Variation Act
- Separate will for foreign holdings
- Probate fee:
 - No fee up to \$25,000
 - Between \$25,000 and \$50,000 - \$6 per \$1,000 + \$208
 - 1.4% of assets over \$50,000

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Beneficiaries

- **Transfer assets directly to beneficiaries**
 - RRSPs
 - RRIFs
 - LIFs
 - Disability Plans
 - Life Insurance

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Life Insurance

- Benefit is tax-free
- Pay taxes on death
- Charitable gift - tax deductible
 - Choose to deduct either the premium or the face amount
- With a named beneficiary;
 - Is not subject to the Wills Variation Act
 - Avoids probate fees

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Charitable Gift Planning

- Deemed disposition of capital property on death
 - Tax free rollover to a surviving spouse
 - Tax due on death of surviving spouse
 - Value of RRSPs and RRIFs
 - Capital gains on property
 - Gift of securities – no taxable gain
 - Get maximum tax relief on gifts over \$200

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Joint Ownership

- **Joint With Right of Survivorship (JWROS)**
 - Tax consequences
 - Principal residence – beware
 - Supreme Court of Canada 2007 rulings
 - *Pecore v. Pecore*
 - *Saylor v. Madsen*
 - Need for legal and accounting advice

Niall C. Murphy, CFP, CLU, CHFC

Monymap Financial Services Ltd. Telephone 604-948-0944

Thank You

- More information:
 - H&R Block
 - 1515 56th Street, Tsawwassen
 - 604- 943-4866

 - Monymap Financial Services Ltd.
 - Niall Murphy, CFP, CLU, CHFC
 - John Murphy, CFP
 - 604-948-0944

Niall C. Murphy, CFP, CLU, CHFC

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