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Life Choices... a newsletter from Latimer Financial Services

Retirement and Tax Planning   Education Funding   Portfolio Review
Long Term Care   Life Insurance   Critical Illness   and Disability Insurance

January 2010

May this year be all you hope for…

An interesting year has just concluded and a new one started. Our toast to you, besides the above is what Spaniards say when hoisting a drink with friends: "Salud, amor y pesetas y el tiempo para gozarlas."

Or…"Health, love and money and the time to enjoy them."

That's what Latimer Financial wishes all of you!

Make sure your spouse has a credit card in his/her name!

A client, who is a new widow, came into our office with some concern recently advising that her bank had refused her a credit card. It appears that she and her husband used the same credit cards that were in his name for years. On his passing, the bank cancelled the card(s).

Our client, who has not worked outside the home in a great many years, now finds herself without a credit history.

Her advice to you: if one spouse does not have a credit card in his or her name, get one! Establish your credit worthiness! And…if you have a problem in obtaining a credit card because you are not working, do not be surprised that in this day and age, the bank asks for your spouse to co-sign the credit card agreement!

Used to irk…and it still happens!

HST in Manitoba?…

There has been continuous chatter about the HST (Harmonized Sales Tax). Obviously, this is a concern to all of us because when the government talks about "harmonizing" taxes, we get the queasy feeling that we'll pay more – even though the word "harmony" does have a pleasant ring to it…most of the time.

Turns out that the Finance Minister of the Province of Manitoba also had the same queasy feeling and recently put out a statement that included the negative effect she feels sales tax harmonization would have on Manitoba families, businesses and public finances.

The statement was interesting:

1. Implementing harmonized sales taxes would mean $405 million in additional sales taxes to be paid by families, increasing their share of the tax burden to 86% from the present 54%.

2. This would effectively offset the more than $400 million in tax relief for Manitoba businesses.

Latimer Financial Services 820 – 363 Broadway Winnipeg, MB R3C 3N9 Phone: 204-942-6895 Fax: 204-956-1006 Toll free: 1-877-828-4637
Hugh E. Latimer: hugh@latimerfinancial.ca W.A. (Bill) Latimer: bill@latimerfinancial.ca Web site: www.latimerfinancial.com

The Minister suggested that considering the economic uncertainty for Manitoba families "…we don't think it makes sense to impose $405 million in new sales taxes."

The entire report issued by Ms. Wowchuk is posted on the Manitoba Finance website and it makes interesting reading. From our point of view at Latimer Financial we would be concerned that among those items that would face the largest increases in costs are financial services, insurance and real estate.

HST would also apply to several items that are not currently subject to the provincial sales tax including gasoline ($161 per year for the average household), home heating ($35 per year), entertainment ($63) and personal services such as haircuts ($30 per year). That last one would really irritate a guy like me!

An HST would apply to new homes, adding $17,500 to the cost of a new $250,000 home.

The HST is not a pleasant prospect but we are encouraged by the Minister's attitude in rejecting the notion…for now. Ontario and British Columbia have already embraced harmonization but we hope they will stand alone for some time to come.

More on this subject and its effect on mutual fund costs and insurance premiums in our next newsletter.

RRSP Time

Now is the time to think about whether you are going to make an RRSP contribution prior to the deadline of March 1, 2010.

The maximum RRSP contribution limit for the 2009 taxation year is $21,000. However, if you did not use your entire RRSP contribution limit for the years 1991-2009, you can carry forward the unused amount to 2010. Therefore, your contribution limit for 2010 may be more than $21,000.

Keep in mind that in order to have a contribution limit of $21,000 for the year you must have had earned income of $116,667. Otherwise, 18% of earned income is your limit.

TFSA Time

Because the TFSA is a relatively new concept we thought we would include some of the basic rules here as a refresher.

- There is no deadline or magic date in which you must make a contribution to your TFSA (Tax-Free Savings Account) – although some of our clients were led to believe that there is.
- Eligibility: Open to any individual (other than a trust) who is at least 18 years of age, a resident of Canada, and who has a valid Social Insurance Number.
- How do you establish a TFSA? Step one: call either Hugh or Bill Latimer. We can take it from there and make the process simple.
- Types of investment allowed in a TFSA? The same as those allowed in RRSPs: including mutual funds, securities listed on a designated stock exchange, guaranteed investment certificates, bonds, and certain shares of small corporations.
- You can also make "in kind" contributions to your TFSA (as you can with RRSPs), as long as the property is a qualified investment. You will be considered to have disposed of the property at its fair market value (FMV) at the time of the contribution. If the FMV is more than the original cost of the property, you will have to report the capital gain on your income tax return. If the cost is more than the FMV, the resulting capital loss cannot be claimed. The amount of the TFSA contribution will be equal to the FMV of the property.
- Dollar limit: As the account holder, you are the only person who can contribute to a TFSA.
- For 2010, the contribution limit will be $5,000.

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- TFSA contribution room: The contribution room is made up of:
    - Your annual TFSA dollar limit ($5,000 per year plus indexation, if applicable).
    - Any unused TFSA contribution room in the previous year; and
    - Any withdrawals made from the TFSA in the previous year, excluding qualifying transfers.

Note that CRA will provide you with your total TFSA contribution room as it does for RRSP contributions – on your notice of assessment.

Withdrawals, excluding qualifying transfers, made from your TFSA in the year will be added back to your TFSA contribution room at the beginning of the following year.

You cannot contribute more than your TFSA contribution room in any given year, even if you make withdrawals from the account during the year. If you do, you will be subject to a tax equal to 1% of the highest excess amount in the month, for each month you are in an over-contribution position.

Budgets permitting…TFSA, RRSP or both?

Good question! Needs to be asked and answered.

TFSA's, as the name implies, allow for tax-free accumulation of funds. That means that any investment returns produced by your TFSA will not be taxed. Ever.

But…you cannot deduct from taxable income what you contribute to a TFSA.

RRSP's however, as you no doubt are aware, allow for tax-sheltered accumulation of funds. That means that the amount placed in the RRSP plus the earnings on the investment, will not be taxed as income during the period of accumulation.

However, when you begin to use your RRSP accumulation for income purposes you will be taxed as you withdraw the income.

But…you can deduct what you contribute to your RRSP from your taxable income.

Thus, if your budget only allows you to consider one or the other investment, you need to weigh how important the deduction (and the corresponding refund) is to you if you were to place the available funds in an RRSP against the benefits of having a source of tax-free income (or lump sum) in the future.

That is a very important consideration and much will depend on your income; how likely you are to need the saved funds prior to retirement; the impact of taxation on your retirement savings, and so forth.

You might be able to decide these questions by simply thinking about them. Or, you may want a bit of help in sorting out the mathematics that are involved. If that is the case, feel free to call either Bill or Hugh. Both are qualified to walk you through the steps.

Of course, if your budget and circumstances allow you to contribute to both, then by all means, you should probably do both.

Ought you to be worrying about anything…?

On occasion, I would accuse my mother of worrying because she had nothing to worry about.

Clearly, I would be hard pressed to say to any reader that they should not worry because there is nothing to be worried about.

But…I'm going to.

Don't worry.

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Not because there is nothing to worry about with respect to the world's economic and investment climate. But because worry can distort concern.

And you should be "concerned."

A sincere concern about something can even clarify the thinking process and assist in arriving at conclusions without tearing one's hair out by the roots!

We believe, however, that when it comes to the global economy, concerned thought can only lead you to the conclusion that there is nothing we, as individuals, can do about it. (Unless, of course, your name happens to be Ben Bernanke or Mark Carney. Neither of these gentlemen is on our mailing list, so your name is likely not going to be one of those two.)

(Just to clarify thus far: Ben Bernanke is the Chairman of the United States Federal Reserve Bank and Mark Carney is our very own Governor of the Bank of Canada. One of them might be able to fix what might be broken – or at least contribute to the mechanics' efforts.)

So, what should we be concerned about?

I think you need to be concerned about your own savings and investment programs. You need to feel that you are diversified among the various asset classes to the extent that you are not overly exposed to any single class or even, any single investment.

You need to be concerned about whether you are saving "enough."

You need to be concerned about whether the "assistants" you have – your accountant, your banker, your investment advisor – have covered all the bases that they are trained to review and that you have, indeed, achieved the proper balance among those asset classes in keeping with your personal ability to accept risk; with the time horizon you have (how long will it be before you will need to access your savings and investments in order to buy groceries, pay the condo fees or rent, buy clothing and entertain yourselves and your grandchildren).

You need to be concerned that in the event you suffer a prolonged disability that prevents you from going to work, you and your family will continue to have income that is sufficient so that you do not have to access your savings prematurely.

You need to be concerned that in the event you die prematurely, your affairs are in such order – including life insurance – that your family will be secure and able to remain "in their world" and not have to access funds intended for retirement prematurely.

And you need to be concerned that when you reach retirement, there will be sufficient income from your investment resources to live comfortably and "do the things I've always wanted to do."

Those are some of the things you need to be concerned about.

Those are some of the things your advisor can help you think about, evaluate and do something about!

Not to make too fine a point…

…but we sincerely wish you great health and much peace and happiness throughout 2010. And, remember, we are concerned! About those things we can actually do something about – which is to assist you in any way we can to address the concerns we have outlined above.

You've worked hard for your money and lifestyle! Let us work hard for you!

Comments…?

As always, we welcome your comments.

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