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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 2011

Another year is upon us!
We wish all our valued clients a healthy, happy and prosperous New Year!

The RRSP Season Is Here: How Much And When?

With the passing of another year, we find ourselves looking at another RRSP deadline. The deadline is 60 days after the beginning of the year, or March 1, 2011 for RRSP contributions made for the 2010 tax year.

The maximum you may contribute is 18% of your earned income, less any adjustments due to your employer pension or group retirement savings plan, to a maximum of $22,000. In addition, you may also “catch up” on previous years’ contribution room not already deposited. This carry-forward provision goes all the way back to 1991.

While many clients make their contributions on a monthly basis throughout the year, now is an excellent time to take a preliminary look at your taxes to see if you’d like to “top-up.”

Why Would Someone Choose Not To Make An RRSP Contribution?

Surely if I’ve got the room and the ability, the right thing to do is maximize my allowable RRSP contribution! Possibly not. We still believe in RRSP’s as the best way to save for retirement. The deposits earn you a tax deduction and the proceeds grow on a tax-deferred basis as long as they remain in the RRSP. After all, tax deferred dollars grow at a faster rate than those the government shows an interest in every year!

Consider that the best eventual use of an RRSP is to generate an income, whether through the purchase of a Registered Retirement Income Fund (RRIF) or Life Annuity. You are only taxed on the proceeds as you draw them and effective tax planning can help you minimize your taxes when the time comes.

However, in addition to the predictable income that effective retirement planning can help you prepare for, life also presents the occasional need for lump sums of ready cash. Above your typical monthly expenses, you’ll need to plan for home renovations, newer vehicles, new furnishings and appliances – or possibly an emergency trip due to out-of-country medical needs or the death of a family member.

On the other hand, you may want to offer your son or daughter help paying for their wedding or the down payment on their home. You may even want to take the occasional trip, involving above average expense.

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All of these "unpredictable, yet probable" expenses will be more manageable if you can accommodate them without depleting your RRSP's. After all, it would be easier to come up with $5,000 for a new furnace rather than $9,200 to accommodate the furnace as well as the income tax on the proceeds.

With these points in mind, if retirement is no longer a distant dream, have a discussion with us about accumulating investments outside of your RRSP. The next logical opportunity would be to maximize your Tax Free Savings Account (TFSA). However, beyond this, the main point is to prepare for the "cash" needs as well as the "income" needs you'll undoubtedly encounter in retirement.

Another New Year…..Another Investment Opportunity

As of January 1, 2011 all tax return filing Canadians age 18 and older gained another $5,000 in Tax Free Savings Account (TFSA) contribution room. This brings the total potential deposits per person to $15,000 since the creation of the TFSA in 2009.

While deposits to your TFSA do not generate a tax deduction, the proceeds grow on a tax-free basis and may be withdrawn without impacting your income-tested government benefits or tax credits.

Unused contribution room carries forward from one year to the next, including those amounts previously withdrawn – as long as they were withdrawn last year or earlier.

Consider the following:

- Two spouses who have never made a TFSA contribution now have $30,000 of available room.
- The TFSA limits of adult children living at home may be "borrowed" by the parents for additional tax-free savings. When the children are old enough to want to shelter their own money, the funds can always be withdrawn, without any negative tax implications and replaced later with the child's own money.
- Elder parents selling their homes in preparation for moving into an assisted living facility that charges based on income, can shelter the growth on the proceeds of the home sale by taking advantage of both spouses' unused TFSA room.

Please call us if you have any questions or just want more information (204) 942-6895.

We look forward to helping you make it a great year!

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