



Fraser McDowell, CFP

# What you do with a refund can hurt or help

Are you getting a tax refund this year? Typically, our first inclination is to view that tax refund as a bonus, and we rush out to use it for something that gives us emotional gratification. Spending the bonus can make us feel good, but there may be some smarter things to do with the money.

If you are interested in using the refund for building wealth, consider some of these options.

### Invest in RRSPs

Putting your refund into RRSPs is just smart financial planning. It may not be as much fun as going out to buy that new toy, but investing money is a good habit, and there may be no better time than right now. The current markets offer tremendous buying opportunities if you have a two-to five-year time horizon.

Aside from timing, investing now has advantages over waiting until January or February. It forces you to save instead of having to find the funds from other sources in the future. If you are investing in RRSPs early, you may want to apply for a reduction of taxes at source.

### Getting a refund might be bad

While most of us would rather get a refund than

pay any amount of tax at tax time, you may not be making the most efficient use of your money.

In fact, getting a refund really means you have given the government an interest-free loan for 15 months. You would have been better off investing that money or using it for wealth building instead of lending it to the government tax-free.

For some, tax refunds are a means of forced savings, but if you are disciplined at financial management, you may want to apply for a reduction of taxes at source. This means your employer withholds less tax so that the money is in your hands instead of the government's.

To apply to reduce tax deductions at source, you can fill out Form T1213, which can be found on the Canada Customs and Revenue Agency Web site at <http://www.ccr-a-drc.gc.ca/E/pbg/tf/t1213eq/README.html>.

### Pay off non-deductible debt

Paying off debt might be one of the best investments you can make, particularly if that debt is non-deductible. For example, say you have a loan on which you pay 7.5 per cent interest. While you might perceive that to be a reasonable rate, think again.

*Cont'd on Page 3*

VISIT US  
ON THE WEB  
AT  
[www.perlerfinancial.com](http://www.perlerfinancial.com)  
EMAIL  
[fmcdowell@perlerfinancial.com](mailto:fmcdowell@perlerfinancial.com)

TOPICS	PAGE
What you do with a Refund .....	1
Tax Tips 2004 .....	2
Tax Tidbit .....	3
April Quarterly Draw Winner .....	3
New Home Mortgage Program .....	4
Mortgage Rates .....	4

# Tax Tips 2004

## Keep your tax records for 7 years.

If you are audited, CCRA can back-review your personal income tax returns for three years, or more. Without documentation (as far back as seven years may be requested) such as copies of returns, RRSP contribution slips, medical receipts, support for self-employed revenue and receipts, all preparatory source documents, and T-slips, CCRA can summarize assess your taxable income. Do your taxes right, and keep the proof. Avoid paying for past income tax, penalties and interest.

## Be detailed in your record-keeping.

Perhaps you have deducted legal fees. CCRA may investigate whether they were for personal use or for business use. So long as you can support these deductions with proper documentation, such as a detailed receipt, you'll not create a tax liability. CCRA is less interested in your income documentation.

## Families should file together.

Filing all family members' tax returns together, allows everyone to maximize the best use of credits or transfer of unused credits from each other's tax return (for spouse, common-law partner, children, certain relatives if they live with you), such as medical expenses which can be claimed on a family basis.

## Use the Internet if you expect a tax refund.

Where you have money owing on your tax return, you can file early and make your payment by April 30. If CCRA owes you money, they will pay you quicker if filed on the Internet. Where you give them deposit information, money can be deposited right into your bank account. Another advantage is that you will not need to photocopy and send receipts with your tax return. But caution, the downside is that you are more likely to be contacted for a formal review to verify income and expenses not previously articulated by sending a paper return (you may need verification for up to seven years). Discuss this with your accountant.

## Reducing a cumulative net investment loss.

What if you have claimed cumulative investment expenses greater than your investment income, reducing your access to the capital gains exemption? Use dividend income to reverse this excess claim and free up access to the capital gains exemption again.

## Minimize tax on your fund investments.

Where you earn more than \$60,000 income, the tax rate on capital gains is then lower than taxation on dividends. Thus, a higher-income earner should have more capital gains in their non-registered portfolios than interest or dividend generating investments.

You can deduct money borrowed to invest outside of an RRSP during the year. If these investments were inside an RRSP, management expenses, and interest charges on the loan would not be deductible. Therefore, purchase your RRSP with cash assets, and borrow for unregistered investments.

## Register for the Child Tax Benefit (CCTB).

You can qualify for the CCTB by registering any new children, or for a child that moves in with you (for example where he/she previously lived

with the other parent, in a separation). List all the children in chronological order, because you can claim a maximum of \$7,000 in child care expenses for each child younger than seven; \$4,000 for each seven and older, but not yet seventeen on December 31 of the tax year. The purpose of the CCTB payments (received tax-free) is to improve the child's quality of life.

## Maintain child support deductibility.

Where a child support payment is now deductible, do not create an adjusted, amended, or new agreement or you will lose your deductibility (anytime after April 30, 1997). If you make this mistake, the payee will get your payments free of tax, while you take no further deduction.

## Compare leasing a car to buying.

If you lease a car, you can deduct the entire amount, up to CCRA's maximum (currently \$800 plus taxes per month), while considering any tax restrictions relative to your employment, business-use, or an percentage attributed for personal use. When the lease is up, you own nothing, and return the car. If your lease payment is less than \$800 before taxes, you may want to renegotiate the amount to that limit with the leasing company to take full advantage of the deduction. This is advisable if you intend to keep the car anyway.

When you purchase, you can write off the interest on your car loan, and you can deduct the capital cost allowance over time. Once the loan is finished, you will own the car. Perhaps do both: lease for the initial period, and buy the car at the end (either with cash or borrow, and write off the interest and the capital cost allowance). This may work well if you have gone way over your mileage and own the leasing company a significant amount upon bringing the car back. Let's say the car is worth \$32,000 to buy at lease-end, but you never planned to buy it – until you find out that you owe \$15,000 for the extra kilometers driven. Thinking creatively, you do the math (in terms of car value), and consider the option to buy the car.

If you buy it out, you attribute the \$15,000 due for mileage, back into the buy-out equation, purchasing it for a net \$17,000 (taxes not considered). If you take the car back to the leasing company, and buy a new car worth \$30,000, you will need to pay out a total of \$45,000 (\$30,000 plus the \$15,000 liability) to pay off the lease-end liability, plus buy the new car. View car buying and/or leasing as total expended as you make your financial decisions. It takes time to calculate the best planning, but in the end you'll be ahead. By buying an extended warranty, a used car bought out at the lease-end could have the maintenance security of a newer car.

Also, when you buy the car, you will not be accountable to the leasing firm for any damage. Where damage exists, you might be forced to have it fixed via your insurer thus increasing your premiums. If you own the car, repairs can possibly wait until you have the extra cash in hand.

## Should I use a personal vehicle for work?

If you use a personal vehicle for work, your employer may be able to pay you a tax-free allowance. A reimbursement rate up to 41 cents for the first 5,000 kilometers, and 35 cents on the remainder (depending on province). This can make it easier to claim gas and other bills on your tax return.

*Cont'd from Page 1*

On an after-tax basis, assuming you are in a 36 per cent marginal tax rate, that interest is really costing you 11.7 per cent. Unfortunately, when you earn a dollar, you must pay tax, and therefore, you will only have 64 cents to go towards the interest.

The key to a debt-reduction strategy is not to go back into debt. Far too often, I see people who commit to using their tax refunds to pay off debts like credit cards or personal loans, only to go back into debt. If this sounds like you, you might be better off investing your refund in an RRSP as a method of forced savings.

### Simple - not easy

Building wealth is really simple. Spend less than you earn and be sure to force yourself to "spend" your money on assets that build wealth as opposed to assets that have no wealth. Unfortunately, while this is really simple, it is not easy to do; we get more emotional satisfaction out of using the money for things that either depreciate in value or have no financial value.

As you get that refund this year, think twice about what you want to do with that money. If you have already maximized your RRSP contribution and have no debts, congratulations - spend away!

*Source: James Yih  
Moneysense.ca*

## Tax Tidbit

*Fun for the Kia  
means Funds  
for You!*

# TAX-TIME

### Did you know...

If you enroll your child in daycare, summer camp, boarding school, or a sports school, you may be able to claim your expenses for these activities on your income tax return. To qualify, you must have incurred the expenses in order to work or attend school. When there are two parents, the parent with the lower net income usually has to make the claim.

If your child is under the age of seven and you qualify, you may be able to claim up to \$7,000 a year. For each child over the age of seven but under the age of sixteen, you may be able to claim up to \$4,000. There is no age limit for a disabled child and you may be able to claim up to \$10,000. For more information visit [www.cra.gc.ca/iis](http://www.cra.gc.ca/iis) and select "C" from the drop down menu for Child care expense.



April 2004 Winners Garry Strand & Judi Hlghes

*Congratulations  
To  
Garry Strand & Judi Hughes  
The winners of our  
Quarterly Draw for April*

*Garry & Judi are the winners  
of a beautiful basket.  
Included are various  
flavoured oils, almonds, specialty coffees,  
gourmet bisquits and more!*

*Our next draw is July 2004 - Good Luck!*

# 5 Powerful Home Buying Strategies!

## 1. Don't Get "Pre-Qualified!" Get "Pre-Approved"

Do you want to get the best house you can for the least amount of money? Then make sure you are in the strongest negotiating position possible. Price is only one bargaining chip in the negotiations, and not necessarily the most important one. Often other terms, such as the strength of the buyer or the length of subjects, are critical to a seller. In years past, we always recommended that buyers get "pre-qualified" by a lender. This means that you spend a few minutes on the phone with a lender who asks you a few questions. Based on the answers, the lender pronounces you "pre-qualified" and issues a certificate that you can show to a seller. Sellers are aware that such certificates are WORTHLESS, and here's why! None of the information has been verified! Unknown problems can surface for example: recorded judgments, child support payments due, glitches on the credit report (due to any number of reasons both accurately and inaccurately), down payment funds that have not been in the clients' bank account long enough, etc. So the way to make a strong offer today is to get "pre-approved". This happens AFTER all information has been checked and verified. You are actually APPROVED for the loan and the only loose end is the appraisal on the property. This process takes anywhere from a couple of days to a few weeks depending on your situation. It's VERY POWERFUL and a weapon I recommend all of my clients have in their negotiating arsenal.

## 2. Sell First, Then Buy

If you have a house to sell, sell it before selecting a house to buy! Let's pretend that we go out looking for the perfect house for you. We find it and you love it! Now you have to go make an offer to the seller. You want the seller to reduce the price and wait until you sell your house. The seller figures that's a risky deal, since he might pass up a buyer who DOESN'T have to sell a house while he's waiting for you. So he says OK, he'll do the contingency but it has to be a full price offer! So you see, you paid more for the house than you could have because of the contingency. Now you have to sell your existing house, and in a hurry! Otherwise you lose the dream house! So to sell quickly you might take an offer that's lower than if you had more time. The bottom line is that buying before selling might cost you TENS OF THOUSANDS of dollars. I always recommend that you sell first, then buy. If you're concerned that there is not a house on the market for you, then go on a window-shopping trip. You can identify possible houses and locations without falling in love with a specific house. If you feel confident after that then put your house on the market. Another tactic is to make the sale "subject to seller finding suitable housing". Adding this phrase to the listing means that WHEN YOU DO FIND A BUYER, you will have some time to find the new place. If you don't find anything to your liking, you don't have to sell your present home.

## 3. Play the Game of Nines

Before house hunting, make a list of nine things you want in the new place. Then make a list of the nine things you don't want. We call this "NINE OF THIS AND NONE OF THAT". You can use this list as a scorecard to rate each property that you see. The one with the biggest score wins! This helps avoid confusion and keeps things in perspective when you're comparing dozens of homes. When house hunting, keep in mind the difference between "SKIN AND BONES". The BONES are things that cannot be changed such as the location, view, size of lot, noise in the area, school district, and floor plan. The SKIN represents easily changed surface finishes like carpet, wallpaper, colour, and window coverings. Buy the house with good BONES, because the SKIN can always be changed to match your tastes. I always recommend that you imagine each house as if it were vacant. Consider each house on its underlying merits, not the seller's decorating skills.

## 4. Don't Be Pushed Into Any House

Your agent should show you everything available that meets your requirements. Don't make a decision on a house until you feel that you've seen enough to pick the best one. Review the Multiple Listing printout with your agent to make sure that you are getting a COMPLETE list. Homes are selling quickly, but don't rush into something that you might regret. There isn't always this urgency, unless a home is drastically under priced, and you'll know if it is. Don't forget to check into the SCHOOL DISTRICTS of the area you're considering. Information is available on every school; such as class sizes, % of students that go on to college, SAT scores, etc. You can get this information from your agent or directly from the school.

## 5. Stop Calling Ads!

A word of caution - agents create ads solely to make the phone ring! Many of the homes have some drawback that's not mentioned in the ad, such as traffic noise, power lines, or litigation in the community. What's not mentioned in the ad is usually more important than what is. For this reason, I want you to be very careful when reading ads. Remember that the person writing the ad is representing the seller and not you! The most important thing you can do is have someone on your side looking out for your best interests. Your own agent will critique the property with an eye towards how well it meets your needs and will point out any drawbacks you should know about. So whether you decide to work with me or not, pick an agent you feel comfortable with and enlist the services of that agent as a buyer's broker. Then you become a client with all the rights, benefits, and privileges created by this agency relationship, and you're no longer just a shopper. Did you know that many homes are sold WITHOUT A SIGN ever going up or an AD EVER BEING PUT IN THE PAPER? These "great deals" go to those people who are committed to working with one agent. When an agent hears of a great buy, who do you think he's going to call? His client, who he has a legal obligation to work hard for, or someone who just called on the phone and said "keep your eyes open"? So, to get the best buy on a property, I always recommend that you hire your own agent and stick with him/her. I work very closely with several GREAT agents and would be happy to provide a referral. Courtesy of Mark Fidgett

## Mortgage Rate Update



*Lender/Broker fee may apply to non-traditional applications*

*Mortgage rates quoted for first mortgage as of  
 May 29, 2003*

Term	Posted Bank Rates	Our Best Rates
6 MONTHS	5.05%	4.05%
1 YEAR	4.45%	3.45%
2 YEARS	5.10%	4.10%
3 YEARS	5.80%	4.95%
4 YEARS	6.25%	4.95%
5 YEARS	6.50%	5.15%
7 YEARS	7.50%	5.60%
10 YEARS	8.10%	5.99%

Mortgage rates provided by  
 Karen Hall, Dynamic Mortgages