Lara Austin's

January/February 2013

MindingMoney

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For the friends and clients of Lara Austin of RBC Dominion Securities

Welcome To A Brand New Year!

Historically, the next two months would be jammed packed with media advertising for RRSP contribution deadlines. The government created RRSP accounts in 1957 and back then you were limited to 10% of your income to a maximum contribution of $2,500. Remember the days when you lost your RRSP room if you didn't use it before the end of February? That ended in 1991. Since then we can carry forward the unused room to future contribution years. So the "panic" at the end of February has diminished; although sadly I think some people need a deadline to take action!

What gets lost in the marketing push these days are the other very important planning opportunities that take place in the first two months of the year. In this issue I have included a list of lesser-known strategies that should be considered in the first two months of the year. (Maybe they are too wordy to hang on a bill board!)

It has also been brought to my attention that the new BC Family Law Act is going to undergo some changes on March 18th. I met Shannon Aldinger at the December Women's Business Network meeting. We are fortunate to have resources like Shannon here in the Valley. She is a Family Law specialist and is passionate about working with families to ease their distress in a marital breakup. She has provided a brief summary of changes set to take place. I would also add that research shows the divorce rate increases in the month of February! (I suspect the stress of Christmas and in-laws) and on a local perspective, I'm seeing an increasing trend in "grey" divorce; couples in retirement going their separate ways.

I'm looking to grow my business this year. I have room to take on 15 new clients. If you know of someone who is in the midst of financial change (such as divorce), has sold a business or recently moved to the Valley I would welcome an introduction. We start with a full complimentary Discovery meeting – which sometimes yields great immediate results – and a chance to mutually decide if working together long term makes sense.

I'm honoured to be invited back to do a presentation for Eldercollege, North Island College. Course #CVEC-3530 "Plan, Choose, Organize and Finalize". My section is entitled "How to Retire Well" and I'll be there Feb. 12th. If you are an Eldercollege member I look forward to seeing you. My "open to the public" educational presentations are at the end of January – ***details on the back page.*** Please call if you wish to attend. Cheers,

Lara D. Austin

2013 January/February Tax Planning Tips

Important deadlines and strategies available in the first two months of the year

The holiday season provides a time for many to reflect on the past year and to begin planning for the New Year. Many investors are aware of the importance of tax planning near the end of the year to minimize their income tax liability. However, often-neglected areas of tax planning include meeting the important deadlines for implementing tax planning strategies that may only be available in the first two months of the following calendar year. The purpose of this article is to summarize some of the strategies that have deadlines in January and February 2013.

This article is provided for information purposes only and is not intended to provide legal or tax advice. You should obtain professional advice from a qualified tax advisor before acting on any of the information in this article. This will ensure that your own circumstances have been considered properly and that action is taken on the latest information available.

RRSP contribution deadline for the 2012 tax year

The deadline for you to make a contribution to a registered retirement savings plan ("RRSP") that can be claimed as a 2012 RRSP tax deduction is the 60th day after 2012, which falls on Friday, March 1, 2013.

Eligible retiring allowance

If you received an eligible retiring allowance in 2012 (based on $2,000 per year of service before 1996 plus $1,500 per year of service before 1989 if you were not a member of a pension plan) you have until March 1, 2013 to make a special contribution to your RRSP (but not to a spousal plan) without requiring RRSP contribution room. This special contribution will allow you to defer taxation on the eligible retiring allowance received until it is withdrawn from your RRSP.

Unlike regular unused RRSP deduction room that you can accumulate even if you do not make an RRSP contribution, if you do not make this special RRSP contribution by March 1, 2013, you will lose the opportunity to do so forever. However, if your eligible retiring allowance was paid to you over a period of two or more years, for example, in 2012 and 2013, you would still be able to transfer the 2013 portion as a special contribution to your RRSP for the 2013 taxation year.

In-kind RRSP/TFSA contributions

If you do not have sufficient cash on hand to make an RRSP contribution, you should consider making an in-kind contribution of eligible securities from your non-registered account to your RRSP. If you make an in-kind RRSP contribution to your RRSP between January 1, 2013 and the March 1, 2013 RRSP deadline, you can claim the fair market value of the securities at the time of the transfer to your RRSPas a deduction on your 2012 income tax return (up to your 2012 RRSP deduction limit).

You can also contribute securities in-kind to your TFSA. Like an RRSP contribution, the amount you contribute in 2013 will be equal to the fair market value of the securities transferred in-kind. Be careful not to contribute more than your TFSA contribution limit or you will have an TFSA over-contribution and will be subject to penalties.

Note that an in-kind transfer from your non-registered account to your RRSP/TFSA account is considered to be a taxable event which may result in a capital gain or loss.

If the security you transfer in-kind to your RRSP/TFSA in 2013 is in a gain position you will defer having to pay tax on the capital gain until the year 2014 when you file your 2013 tax return.

If the security you transfer in-kind to your RRSP/TFSA in 2013 is in a loss position, due to the superficial loss rules the resulting capital loss will be lost forever. If you would like to be able to claim the accrued capital loss on your 2013 tax return, instead of making an in-kind transfer to your RRSP/TFSA, you should consider selling the securities in your non-registered account for cash and contributing the cash to your RRSP/TFSA. If you would like to repurchase the same security in your RRSP/TFSA due to the investment merits, be careful not to trigger the superficial loss rules. Wait for at least 30 days after the settlement date before repurchasing the same security in your RRSP/TFSA.

2013 RRSP contribution room created on January 1, 2013

While some individuals procrastinate about contributing to their RRSPs until the RRSP contribution deadline date that falls in the following year, it is generally a good idea to contribute to an RRSP as soon as possible to maximize the tax-deferred growth in your plan. RRSP contribution room is created every January 1 based in part on income you earned in a prior year. January 1 is also the earliest date you can make an RRSP contribution using the new room that is created.

If you wish to maximize your RRSP contribution for 2013 by making a contribution in the first two months of 2013, you will need to estimate your 2013 RRSP deduction limit. This is because you will not yet have received your 2012 notice of assessment (which provides a statement of your 2013 RRSP deduction limit) and you may not

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2013 January/February Tax Planning Tips...Continued

have received your 2012 T4, which provides your employment income and pension adjustment, if any.

To estimate your 2013 RRSP deduction limit, take 18% of your previous year's (2012) earned income up to the RRSP dollar limit ($23,820 for 2013), and subtract any 2012 pension adjustment. Once you have estimated your available RRSP contribution room, you can consider one of the following two contribution strategies:

1. Make a lump sum contribution for 2013;

2. Establish a pre-authorized regular (e.g., monthly) RRSP contribution plan.

Consider making an over-contribution by the allowable $2,000 limit which is not subject to the over-contribution penalty tax. Although the additional $2,000 over-contribution amount would not be tax-deductible, it can be deducted in a future year as long as it is within that year's RRSP deduction limit.

Tax-Free Savings Account (TFSA)

The TFSA allows you to make a $5,000 annual (subject to annual indexation to inflation in $500 increments) non-tax-deductible contribution each year. In 2013 you can make a $5,500 contribution and you can carry forward any unused contribution room indefinitely. In addition, if you withdrew an amount from your TFSA in 2012, you can re-contribute this amount to your TFSA in 2013. Since any income earned in the TFSA is non-taxable, contributing early can increase your savings by maximizing the amount of tax-free growth.

Non-registered account fixed income purchases with January maturities

Although this strategy can be accomplished any time during the year, to achieve maximum tax deferral you could consider purchasing fixed income securities that accrue interest (T-bills, strip bonds, etc.) with January maturity dates. Canadian tax rules require that you accrue the interest annually (even though you do not actually receive any proceeds until you either sell the security or it matures) for tax purposes based on the anniversary date of the security. The anniversary date is every 365 days based on the day before the issue date. For example, a strip coupon issued on January 16, 2012 has a January 15 anniversary date.

Assume you purchase a strip coupon on January 16, 2013 with a January 16, 2014 maturity date. You are required to report the accrued interest from January 16, 2013 to January 15, 2014 on your 2014 income tax return, which you need to file by April 30, 2015. Since you purchased the fixed income instrument after the anniversary date, you will have no interest to report in 2013, the year of purchase.

Prior to implementing this tax deferral strategy, ensure that the tax advantages of timing your non-registered account fixed income purchases do not override the investment merits of the fixed income instrument.

Other alternatives to defer or avoid tax on accrued interest on fixed income instruments include purchasing fixed income instruments in a:

1. Registered plan (avoids the annual tax reporting altogether until withdrawals are made from the registered plan).

2. TFSA as there is no tax on the interest generated in this account.

LIRA conversion to LIF/RLIF

If you have a LIRA (or locked-in RRSP) and are planning to convert your locked-in plan to a LIF (life income fund) or RLIF (restricted life income fund) in the year 2013, then you may want to consider converting in January 2013 rather than later in the year. The reason for the conversion in the first month of the year is that it may give you added flexibility in withdrawing more monies from your LIF/RLIF in the first year. This is because, in the first year of a LIF/RLIF, the maximum withdrawal limit is prorated in some provinces, such as Alberta, Ontario, Newfoundland & Labrador and in federally regulated plans, for the number of months remaining in the year at the time of conversion. Therefore, the earlier in the year the LIRA (or locked-in RRSP) is converted to a LIF/RLIF, the greater the amount that can be withdrawn in the first year. A full year's maximum can be withdrawn regardless of when the LIF/RLIF is opened in provinces, such as Quebec, New Brunswick, Nova Scotia, Manitoba and in British Columbia, where prorating is not required. Note that in the year that the LIRA (or locked-in RRSP) is converted to a LIF/LRIF, there is no minimum payment that must be withdrawn.

Conclusion

While it is important to consider tax planning strategies that may be implemented before the end of each taxation year, it is also important to consider whether to implement tax planning opportunities that are available only in the first two months of the following year. You should consult a qualified tax advisor to determine whether these strategies are appropriate for your circumstances, well before the important January and February deadlines.

New Family Law Act Heralds Dramatic Changes For Separating And Separated Couples

By Shannon Aldinger, Family Lawyer

The laws that apply to couples (both married and common law) who separate are set to undergo dramatic change as of March 18, 2013 when the new Family Law Act takes effect in British Columbia. The new Family Law Act will govern, among other things, the way property is divided for common law and married couples as well as parenting arrangements, spousal support and child support for common law couples and some married couples.

While it is always wise to meet with a family lawyer if you are considering separating from your spouse (or after you have separated but before you enter into any form of separation agreement), it is particularly important to do so now (and well before the new laws take effect on March 18, 2013) as the changes may affect your rights following separation and therefore how you approach your separation.

For example:

a) if you are recently separated or are considering separating from your spouse and

- Either you or your spouse received an inheritance or gifts of value during your relationship;

- Either you or your spouse brought assets (such as a home or investments) into your relationship;

- Either you or your spouse are the beneficiary of a trust;

- Either you or your spouse incurred significant debts during your relationship; or

b) if you are living (or intend to start living) in a common law relationship; or

c) if you have a separation agreement that you believe is not fair to you the new Family Law Act will treat you differently than the laws that are currently in place (until March 17, 2013 under the Family Relations Act) – and therefore you should contact a family lawyer to get legal advice well before the new Act takes effect.

Other significant changes will include: better protection/ restraining orders for cases involving domestic violence; the removal of the terms "custody" and "access" (to be replaced by the terms "parenting responsibilities", "parenting time" and "contact"); better enforcement mechanisms in situations where one parent denies the other parent time with the child/ren as well as situations where a parent refuses to exercise parenting time to the child/ren; the imposition of notice requirements in the event a parent wants to move with the children; and provisions related to children conceived by surrogacy and other assisted human reproduction contracts.

Finally, meeting with a lawyer does not mean that you have to hire the lawyer to represent you; you may choose simply to get legal advice and then represent yourself.

Back by popular demand...

How to Survive in a 2% World

GIC rates are at 60-year lows. Retirees especially have taken a pay cut on their investment income. This presentation is a practical look at the various INCOME options available, how they are taxed and what you can do to give your income a boost.

January 21, February 19, March 19 or April 23 (2013) at 2:00 p.m.
Comox Valley Visitors Centre | 3607 Small Road | Cumberland, BC

The Five Secrets of a Successful Estate Plan

If you wrote a Will 15 years ago and think you have an "Estate Plan" – think again! We look at the components of a successful plan and how to address issues like blended families or spendthrift children.

January 25, February 21, March 21 or April 25 (2013) at 2:00 p.m.
Comox Valley Visitors Centre | 3607 Small Road | Cumberland, BC

Executor "Sins" and Power of Attorney "Prayers"

Presenter: Susan Benesch, Estate and Trust Services, RBC Wealth Management

26% of Canadian executors report legal issues or complications – and no wonder! There are over 70 different tasks an executor must complete! One in 12 BC seniors has been a victim of financial abuse in excess of $20,000 and some through a Power of Attorney. Find out how you can protect yourself and what to consider when you're asked to be an Executor.

January 24, 2013 at 10:00 a.m. or March 7, 2013 at 2:00 p.m.
Comox Valley Visitors Centre | 3607 Small Road | Cumberland, BC

Lara D. Austin, BA (Hons.), CIM, FMA
Investment Advisor

Lara Austin is pleased to be presenting these complimentary workshops. She has been educating for the last 10 years to a variety of audiences, including Eldercollege at North Island College.

To RSVP, contact Lara or James at 250-334-5600, or lara.austin@rbc.com or james.ram@rbc.com.

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