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Sandra Sparanese's

Financial Focus

Views and opinions for the clients and friends of

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Dear Clients and Friends,

First of all, let me extend my warmest greetings and best wishes for a happy holiday season this year. I hope you have the opportunity to gather with friends and family to celebrate.

Secondly, where did the year go? Do you find yourself asking this question? Year end is a great time to reflect on the prior year and plan for the next both personally and financially. The first step to planning out a successful year is to write down what you plan to achieve. Personally, that could be learning a new hobby or skill, or maybe trying a new sport. Financially, it is knowing what your plans are, that have a price tag attached to them. Travel? Renovations? Vehicle upgrade? Gifting to a charity? I often have those conversations with clients. What is on your bucket list? What do you want to do when you have time, money and your health all at the same time? Part of my role as Investment Advisor and Financial Planner is to encourage you to enjoy the wealth you have accumulated, and I will continue to do that each and every year.

I'd like to thank my long time clients for your continued support and loyalty, in addition to the 32 new families that I have welcomed this year as new clients. Many of these new introductions have come from referrals from existing clients, and I truly appreciate your confidence in my ability as Investment Advisor and Financial Planner.

2013 will hold exciting things for all of us. We cannot control markets, interest rates or political decisions…. So let us focus on the variables that are within our control and work out a plan for success!

Best wishes for a safe and happy holiday season,

Sandra

Supporting The Mustard Seed

My daughter and I have been volunteering at the Mustard Seed Food Bank for the last year where we help serve at the Sunday family dinners. Be sure to drop by the Mustard Seed's gift wrapping table at Mayfair Mall this holiday season and have your gifts beautifully wrapped for a donation of any amount to the Mustard Seed. You might even see us there wrapping away in support of a great organization!

2013 YEAR-END TAX PLANNING

As year-end approaches, it is wise to take some time to review your financial affairs for any tax savings strategies. Here are a few ideas for your consideration, all of which should be reviewed with your qualified tax advisor to ensure they make sense for you.

Tax Loss Selling Opportunities

Year end is a great time to look for opportunities to make changes to your non-registered investment portfolio. It may be the time to move away from an investment that has not been performing well and potentially triggering a capital loss, which can be used to offset capital gains on other assets that you may have sold earlier this year, or may sell in future years. The capital loss that you realize on the sale of an investment (outside of RRSP, RRIF or TFSA) can be carried forward to offset capital gains in future years as well. The deadline to trigger a capital loss (or gain) for 2013 is December 24th to make sure the trade settles by December 31st. Capital losses can also be carried back 3 years to offset capital gains you have realized and already paid tax on.

Defer Realizing Capital Gains

Deferring a capital gain to next year is also a common tax planning strategy. As we approach the end of 2013, if you currently have unrealized capital gains you may want to consider deferring the realization of these gains until 2014 for the following reasons: your marginal tax rate may be lower in 2014 compared to 2013, and if you wait until 2014 to sell a security with a capital gain, it defers the tax payable until April of the following year, 2015 (unless you are required to make tax installments).

Low Income Year

If you expect to be in a lower marginal tax bracket in 2013 (earning less than $40,000 of taxable income), but expect to be in a much higher tax bracket in future years, then you may want to consider making an early withdrawal from your RRSP before year-end. The advantage of this strategy is that you can avoid a higher income tax rate on these RRSP funds if you redeem in the lower income year. You can reinvest the proceeds in a tax efficient solution outside of the RRSP.

Tax Installments

If you are required to make quarterly tax installment payments to CRA, you should make your final payment on or before December 15th to avoid late interest charges. If you missed an earlier installment payment deadline, then you may want to make a larger final installment payment with your December payment. If you are required to make quarterly tax installments to CRA, you may want to make them monthly starting in the new year, to even out your cash flow, rather than quarterly. CRA is happy to take payments on a monthly basis.

Charitable Donations

The final day to make contributions to a registered charity in order to claim the donation tax receipt on your 2013 income tax return is December 31, 2013. Due to the calculation of the donation tax credit, donations above $200 can result in a tax savings equal to the top marginal tax rate (which is 43.7% in B.C.). You can also donate securities in kind (from a non-registered account) without being subject to tax on the realized gain, and also receive the donation tax receipt for the market value of the security at the time of the donation.

TFSA Accounts

The Tax Free Savings Account allows you to earn tax-free investment income including interest, capital gains and dividends. You can make tax-free withdrawals any time, for any reason, and any amount you withdraw is added back to your available contribution room on January 1st of the following year. If you are thinking of making a withdrawal from your TFSA in the near-term, consider doing so before December 31st. This will allow you to recontribute the amount withdrawn as early as January 1st, rather than having to wait to 2015 to recontribute. New TFSA contributions for 2014 ($5,500 is the maximum) can be made the first business day in January.

UNDERSTANDING….. EXCHANGE TRADED FUNDS (ETFS)

Exchange-traded funds, also known as ETFs, are a basket of stocks or securities that track a specific market index or sector group. ETFs offer the diversification of mutual funds, but trade like individual stocks on the major stock exchanges and can be bought or sold throughout the trading day.

With a recent gain in popularity, there are many ETFs covering new sectors and with different types of features. Some new ETFs are designed to do more than track an index. And, many investors are taking advantage of ETFs in innovative ways.

What is an ETF?

Most ETFs are constructed to track the holdings, performance and returns of the underlying index/sector/commodity, net of expenses, and enable investors to purchase a cost-efficient and diversified portfolio of investments in one transaction. For instance, the iShares CDN S&P/TSX Capped Financials Index Fund tracks the S&P/TSX's financial sector, and consists of securities of Canadian financial sector issuers listed on the TSX.

There is a wide variety of ETFs now available. This means that ETFs can be used by investors for a broad range of investment strategies. For example, they can be used to provide exposure to international markets, or to overweight a specific sector.

ETFs trade on exchanges just like stocks. That means that you can buy and sell ETF units through the stock exchange. You can trade using market or limit orders, or place a stop limit trade. You can even buy options on some ETFs. And just like when you are buying stocks, you can see real-time quotes.

The largest group of ETFs in Canada is called iShares. ETFs are similar to mutual funds in that they hold a basket of securities and offer investors efficient diversification. But ETFs are different from mutual funds in two fundamental ways.

First, securities that are held in a mutual fund are selected and managed by a portfolio manager while the composition of securities in an ETF is determined by a predetermined formula, most often designed to match an index.

Second, ETFs trade on exchanges like a stock. The fund can trade hands without impacting the composition of the fund’s holdings. For mutual funds, the size of the pool of money being invested grows and shrinks as investors purchase and redeem shares.

GIC RATES

Did you know… every morning we survey 30 different banks, trust companies and credit unions across Canada to find the best GIC rates for you? It’s our complimentary “rate shopping service” so you don’t have to spend your time in search of the best offer.

GIC Rates as of December 2, 2013

1 Year	1.75%
2 Year	1.95%
3 Year	2.15%
4 Year	2.37%
5 Year	2.71%

Rates are subject to change daily

RBC Partner Profile

SUSAN BENESCH, ESTATE AND TRUST ADVISOR, RBC Wealth Management Services

As Estate and Trust Advisor in Victoria, Susan Benesch provides estate and trust solutions for executors and families throughout Vancouver Island. She acts as a compassionate expert third party for executors helping to relieve their administrative burden and manage their estate settlement duties.

I've introduced many of my clients to Susan and she has worked effectively to relieve an executor's administrative burden, expedite the settlement process, and maximize the estate's value through knowledgeable handling of estate and tax issues. Being named an executor for a friend or family member is not necessarily an honor, but rather sometimes a burden or stressful responsibility. Clients have been happy to transfer those duties to RBC who acts as an independent third party.

Susan can answer any questions you may have in the area of estate settlement. She can be reached at 250-391-4608 or e-mail her at susan.benesch@rbc.com.

Estate Planning Tip

THE *WILLS VARIATION ACT* AND HOW IT CAN AFFECT YOUR ESTATE PLANNING

A general principle of law is that a person who makes a Will has the freedom to dispose of his or her property as he or she wishes. However, like most general principles, there are exceptions. The BC *Wills Variation Act* is a statute which permits a surviving spouse (including a common law spouse), or a natural or adopted child of the deceased to contest a Will on the basis that the Will did not make adequate provision for him or her. The *Wills Variation Act* has sparked a great deal of controversy for those that believe that a parent's obligation ends once they have raised a child to independence. While initially the Act was used primarily by disinherited children, it arises more commonly now as a result of the increase in "blended families".

To illustrate how a blended family can be influenced by the *Wills Variation Act*, here is an example:

John and Joan, who are married, and both have adult children from previous relationships. All of their children are grown and independent, and John and Joan's primary estate planning goal is to ensure that they provide for each other, in the event of the death of just one of them. They wish to enter into simple reciprocal Wills which gift all of their estate to the surviving spouse, and upon the death of the surviving spouse, the estate is to be divided equally among the children of both of them. Unfortunately, because of the principle of testamentary freedom, the surviving spouse is always free to change his or her Will at anytime. Accordingly, if John dies first, Joan could change her Will at any time following his death cutting John's children out entirely. John's children may not be aware that this has been done until after Joan's death, but at that point, they would not have a right to bring a *Wills Variation Act* action, because they are not the natural or adopted children of Joan. Since the limitation to bring such an action is six months from the date of probate, the time may have long since expired to bring an action to vary their father's Will, and thus, the end result is that John's children end up with nothing. John's children may be forced to bring a *Wills Variation Act* action when John dies, attempting to reapportion John's assets away from Joan and to John's children at that time. This could possibly leave Joan without sufficient funds for the balance of her lifetime, and John's estate planning goal will have failed.

This is just one example that illustrates the need for some professional estate planning advice, in the event that you wish to disinherit a child, treat your children unequally under your Will, or in the event you have a blended family.

Information presented by

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