Sandra Sparanese's

FINANCIAL FOCUS

Winter 2014

Views and opinions for the clients and friends of

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DEAR CLIENTS AND FRIENDS,

I would like to extend my warmest greetings and best wishes for a happy holiday season. I hope you have the opportunity to gather with friends and family to celebrate.

When I reflect back on 2014, the first thing that comes to mind is the volatility of the markets and the gentle reminder to all investors that the stock market does not move in a straight, upward-sloping line that we sometimes see on charts and graphs. It can sometimes be very rewarding when good news drives markets higher, and at other times disappointing when things that are outside of our control result in lower markets. The swings, on a daily, weekly or monthly basis confirm that volatility is alive and well. It is now the "new normal" to see markets move by 1% in either direction in just one day.

Geopolitical events contributed to the volatility in the markets. News from global economies overnight would dictate how our North American markets would open each day. A major US company could have an earnings announcement that would drive all other stocks lower as well, only to bounce back by the same amount the following day. The correction we saw in late September and early October was short in duration with the recovery in markets coming just as quickly to the upside. Investors that stayed invested (or used cash for new investments) during this time were rewarded for their patience.

What will 2015 look like for financial markets? Analysts are predicting that interest rates will start to increase in the U.S. during 2015 as their economy continues to grow, and most likely, Canada will follow the lead from the U.S. It is important to remember that we cannot control markets, the price of oil, interest rate changes or geopolitical events from continuing to happen. We need to focus on the variables that are within our control and continue to be long term investors for our future financial success.

Thank you to all of my clients for your continued support and loyalty. I truly appreciate your confidence in my ability as Investment Advisor and Financial Planner. Please feel free to pass on any of my newsletters or Monday Market comments to others who you think may benefit from the information.

Best wishes for a safe and happy holiday season,

Sandra

WHAT IS YOUR NEW YEARS RESOLUTION?

Not everyone spends January 1st of each year writing down their resolutions for the next 365 days. You can change the word "resolutions" to "goals" and look at the exercise from a different point of view. What do you want to accomplish in 2015 personally, professionally and financially? My suggestion for a financial goal for 2015 is to make sure that you have your estate planning documents in place: will, power of attorney and health care directive.

Don't let "financial procrastination" be your own worst enemy!

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2014 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 strategies 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 2014 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 (resulting in a tax refund for you).

Defer Realizing Capital Gains

Deferring a capital gain to next year is also a common tax planning strategy. As we approach the end of 2014, if you currently have unrealized capital gains you may want to consider deferring the realization of capital gains until 2015 for the following reasons: your marginal tax rate may be lower in 2015 compared to 2014, and if you wait until 2015 to sell a security with a capital gain, it defers the tax payable until April of the following year, 2016 (unless you are required to make tax installments).

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 2016 to recontribute. New TFSA contributions for 2015 ($5,500 is the maximum) can be made the first business day in January.

Defer Non-Registered Mutual Fund Purchases

If you purchase mutual funds near year-end in a non-registered account, you may face an unexpected tax liability next April. During the year, a mutual fund will earn taxable capital gains, some of which will be distributed through to the unit holders, and this can happen at year end. If you purchase a mutual fund just prior to the distribution, you will pay income tax on the full distribution amount earned during the year even though the overall value of your holdings have not changed. Once the distribution is made, the unit price of the mutual fund is reduced by the amount of the distribution. Therefore, the problem lies in that you receive no benefit from the distribution (your value will be the same) but are left with a tax liability on capital gains income that you didn’t actually receive. To avoid this, you may want to defer your new purchase until January. We also have other tax effective mutual fund options (Corporate Class Funds) which have lower annual distributions and deferred tax strategies where this does not present a tax problem if purchased later in the year. Keep in mind that this situation is only relevant with non-registered accounts, not in RRSPs, RRIFs or TFSAs where taxable year end distributions are not an issue.

UNDERSTANDING… ANNUITIES

An annuity is a contract with a life insurance company. You deposit a lump sum of money, and the life insurance company agrees to pay you a guaranteed income for a set period of time – or for the rest of your life. Annuities are commonly used to generate retirement income.

You can buy an annuity with money from an RRSP, RRIF or non-registered account. The money is returned to you, with interest, in regular payments. You can choose to receive payments for a set number of years or for the rest of your life. You can receive monthly, quarterly, semi-annual or annual payments. Your annuity income is calculated when you buy the annuity. It is affected by a number of factors – the most important are interest rates and how long you're expected to live.

Once you buy the annuity, you can't make any changes to it. Your regular payments are locked in, and you can't change them for any reason. For some people, this is a good thing as you have a guaranteed income for life – you can't outlive your money. For others, the loss of flexibility is not attractive. If you want a lump sum amount, or if you have a shortened life expectancy, you cannot access the funds as the contract is guaranteed and non-negotiable.

COMPARING A GIC WITH AN ANNUITY

A GIC pays a specific rate of interest and you retain your principal; if you die, your principal amount becomes part of your estate value. On the other hand, an annuity is set up to pay a combination of both your principal and interest back to you and therefore at the end of the annuity contract (or the end of your life) the annuity has no value for your estate.

CONSIDER THE INSURED ANNUITY STRATEGY

The Insured Annuity strategy combines the benefits of two insurance products: a life annuity and a life insurance policy. The annuity provides guaranteed income for life at a higher rate of income than a GIC could provide (because you are receiving both interest and principal each month). A portion of that income is used to pay premiums for a life insurance policy of the same amount. At death, the annuity income ceases and the life insurance death benefit is paid to your beneficiaries to replace the capital originally invested in the annuity.

THINGS TO CONSIDER

This strategy is suitable for those who are between the ages of 60 and 80, risk-adverse, dissatisfied with current low interest rates, and in good health (to qualify for life insurance). Once the annuity is purchased you cannot cancel the contract – it is locked in for life. This may represent a significant commitment, depending on your age. It also means that you should not consider moving all of your investment assets into the annuity just in case something unexpected should occur that requires some of your investment capital. As well, annuity income is fixed so although interest rate levels may go up, the annuity income remains the same. However, the accumulated cash flow over the lifetime of the Life Annuity may be more than that of a GIC, even with increasing interest rates.

SUMMARY

The Insured Annuity strategy can generate a guaranteed, lifetime net income that is typically much higher than what you can achieve with other fixed income vehicles. As well, by directing the capital to named beneficiaries, you can avoid unnecessary estate costs and delays.

OWNING A U.S. VACATION PROPERTY

In the past few years, we have seen Canadians snapping up U.S. vacation properties. Just because these properties are outside of our Canadian borders, it doesn't mean that they are outside the reach of the taxman. Here are a few things Canadians should know about U.S. property ownership:

RENTAL INCOME

The U.S. imposes a withholding tax of 30% on gross rental income; however, you can make an election so the withholding tax does not apply. You would then need to report the net rental income on a U.S. tax return and pay tax on that rental income at U.S. tax rates. Depending on the state, there may also be a state reporting requirement. Although the income will be taxable in Canada, a foreign tax credit is available for any U.S. tax that was paid.

SELLING YOUR U.S. VACATION PROPERTY

When you decide to sell your property, the purchaser must withhold 10% of the proceeds which you can claim against any capital gains tax owing when a U.S. tax return is filed. Although the capital gain may also be taxable in Canada, a foreign tax credit is available for any U.S. tax that was paid.

ESTATE PLANNING

Generally speaking (and as the rules are today), if your total estate value is less than $5.34 million U.S., you probably don't need to worry about U.S. estate tax.

US RESIDENCE RULES

Spending a considerable amount of time in the U.S. could create U.S. tax reporting obligations on your worldwide income. As a rule of thumb, if you spend more than 120 days each year in the U.S. you may be considered a U.S. resident alien for tax purposes. However, there are ways in which you may qualify for relief from this by filing certain returns.

If you own a U.S. vacation property, be sure to receive tax advice from a qualified cross-border tax specialist.

Information provided by:

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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 1, 2014

1 Year	1.75 %
2 Year	2.00 %
3 Year	2.10 %
4 Year	2.30 %
5 Year	2.60 %

Rates are subject to change daily