Assante
WEALTH MANAGEMENT

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Well-Advised

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Summer often brings us more time to enjoy moments with family and friends. This season also offers quiet moments that allow us to refocus on our goals, including our financial goals.

At the heart of many of our financial goals is our family — whether your goal is protecting your family with insurance, saving for your child's education, planning for your retirement, or bestowing a family vacation home for future generations to enjoy. Whatever your financial goals, I can help you reach them.

Call me today to discuss your goals, including any new goals you are working toward, and any changes to your family circumstances that may affect your financial plan. Together, we can ensure that your financial plan continues to reflect your current situation.

REITs: The last trusts standing?

Why REIT investments may be worth a look

Most income trusts declined substantially in value last October, after the announcement of proposed changes that would tax trust distributions. However, there was one notable exception: Real Estate Investment Trusts (REITs).

REITs were largely unaffected, and some even rose in value. The reason? REITs that hold primarily income-generating property located in Canada were specifically exempted from the new tax rules.

While favourable tax changes should never drive your investment decisions, you may want to consider REITs as part of your portfolio, depending on your situation.

Investment characteristics

To evaluate the role that REITs might play in your portfolio, it's important to be aware of their key features:

Regular income stream. Most REITs hold a diversified portfolio of income-producing real estate, such as office and industrial buildings, residential apartments and shopping centres, enabling them to provide a relatively predictable cash flow to investors.

Preferential tax treatment on distributions. REIT distributions typically consist of a mix of interest, dividends, capital gains and return of capital. Of these, only the interest income is fully taxable.

Enhanced diversification. As stocks and bonds move in one direction, commercial real estate may move in another, helping to smooth out your portfolio's returns over time.

Potential risks

Like any investment, REITs are subject to market volatility. In addition, they are sensitive to interest-rate fluctuations and will be influenced by the rise and fall in commercial real estate values.

If you would like more information about REITs, please contact us. We can review the potential of this type of investment in light of your current portfolio, your investor profile and your long-term strategy. ■

Take a lifestage approach to tax planning

For many, tax planning means scrambling at the last minute to make the annual filing deadline. But truly effective tax planning isn't a once-a-year event. In fact, it's a lifelong process.

Each stage of life — minor, young adult, middle age, retirement — offers a variety of potential tax strategies. Here are a few to consider.

Major breaks for minors. Parents or guardians can take advantage of a number of tax benefits that help offset the costs related to raising children. These include the universal child care benefit, tax deductions for qualifying child care expenses, the new child fitness tax credit and the proposed child tax credit.

As children get older and begin to work part time, the income that they earn usually won't be high enough to be taxable. Encourage them to file a tax return anyway. The earned income which they declare will generate valuable Registered Retirement Savings Plan (RRSP) contribution room, which they can use now or at a later date.

Starting your career. When you're young and beginning your career, your most valuable tax-reduction strategy is likely to be your RRSP. The sooner you begin contributing, the longer your earnings can grow and compound within a tax-deferred environment.

Under the RRSP Home Buyers' Plan, you can even remove funds from your RRSP tax-free to buy a home. Under this plan, first-time homebuyers can withdraw up to $20,000, paying it back over 15 years.

Through the peak earning years. As you enjoy higher earnings, be sure to make the most of your RRSP. To the extent possible, contribute the maximum every year and use up any carry-forward room.

Now is also the time to build up your non-registered portfolio. For maximum tax-effectiveness, hold fully taxed interest-bearing investments in your RRSP and investments that generate tax-preferred dividends and capital gains in your non-registered account.

Enjoying the wealth you've built. In retirement, income planning is critical to minimize taxes. For example, by drawing on your non-registered assets first, you can preserve the assets in your registered plans so that they can continue to generate tax-deferred compound earnings.

If you're married, there may be spousal tax-planning strategies that will reduce your family tax bill. For example, you can elect to split your Canada/Quebec Pension Plan (CPP/QPP) benefits with your spouse to equalize income. Recent tax proposals would extend the opportunity to split income with a spouse to all sources of pension income.

These are just some of the tax-planning opportunities that may be useful to you at different times of your life. Ask us about tax-effective investment strategies and, for specific tax advice, be sure to consult a tax specialist. ■

Keep recreational property in the family

Rising recreational property values is great news for those looking to sell, but not so great for owners who want to keep their property in the family for future generations to enjoy.

If you leave recreational property to your children in your will, any increase in its value from the purchase price represents a capital gain, half of which is taxable when the property goes to your children. If the property has appreciated significantly, it might even be necessary to sell it, just to meet the tax liability.

The good news is that there are a number of strategies that can help preserve your vacation property for the next generation.

❶ Take out sufficient life insurance to pay the taxes. By estimating what the tax liability is likely to be upon your death, you can purchase life insurance in an amount that will cover it. Upon your death, the tax-free insurance proceeds can be used to pay the capital gains tax and other estate costs.

❷ Give the property to your children during your lifetime. If you gift the property to your intended beneficiaries now, the transfer will trigger immediate capital gains taxes. Any increase in the property's value to that point will be taxable to you. However, future capital gains will be the responsibility of your children, and won't become payable until your children pass away or sell the property.

❸ Transfer it to a trust. Gifting the property means giving up your ownership stake and your right to make decisions regarding the property. You may want to transfer ownership to a family trust, rather than to your children directly. The transfer will still trigger a taxable capital gain, but the trust structure enables you to retain a measure of control.

❹ Make one or more children joint owners. As in the previous two options, transferring part of the property to one or more children triggers a taxable capital gain. Upon your death, your portion will pass directly to the other joint owners. For this strategy to be effective, the property ownership structure must be set up as joint tenants with right of survivorship (not as tenants in common). Note that this concept does not exist under Quebec laws.

Financial planning isn't just about investing — it's also about achieving your personal goals. We can recommend effective strategies to meet them. ■

Protect your family with term life insurance

Take a moment to think about the people who rely on you — your spouse, children, perhaps your parents or others. How would they fare if you were to pass away prematurely?

It's not a situation that anyone likes to discuss. But it's a possibility against which everyone needs protection — with life insurance.

Affordable protection

One of the most affordable ways to protect your family is with term life insurance. Term insurance pays a tax-free, lump-sum benefit upon death, and provides this coverage for a selected term (typically one, five, 10 or 20 years). Coverage is generally available only until a specified age, usually between 60 and 75.

Premiums stay level for the length of the term you choose and are generally much lower than the premiums for other types of life insurance. At the end of the term, if you still need the protection, you can renew your coverage. Your premiums are likely to go up, perhaps substantially, but in most cases may still be lower than they would be for other types of coverage.

Many uses

Term insurance is an economical way to buy protection that doesn't need to last a lifetime. It's often used in the following situations:

To pay funeral expenses and estate fees. Even a modest funeral can cost thousands of dollars, and estate costs — such as legal and estate fees and taxes — can add thousands more. Term insurance can provide your dependants or your estate with the cash needed to settle these expenses without selling key estate assets.

To create an estate. Term insurance enables you to provide a legacy for your family or a charity when you don't have existing assets to leave to them.

To replace your income. If you have a spouse or other dependants who rely in part on your income, the proceeds from term insurance can provide the capital that they need to generate replacement income.

To care for your children. The policy proceeds would allow your spouse or your children's guardian the flexibility to make decisions regarding their upbringing. For example, your spouse might choose to take an extended leave of absence from work to care for the children. Or the proceeds might be invested to provide for the children's post-secondary education.

To pay off your mortgage and other debts. When you incur significant debt, such as a mortgage, car loan or line of credit, this debt must be repaid, even if your family loses you and your income. By purchasing enough term insurance to cover major debts, you can help ensure your family can maintain their standard of living.

To fund a buy-sell arrangement. If you're a partner in a small business, you can name your business partner as beneficiary of your life insurance policy.

This would give your partner the money needed to buy your shares of the business from your spouse or other beneficiaries upon your death.

Sound advice

We can help you assess your life insurance needs and explore the types of policies that can provide the right level of protection for your family. ■

What type of policy is right for you?

Term life insurance is an excellent choice when you have protection needs that don't last a lifetime. For example, parents often purchase coverage to last until their dependent children reach adulthood. For longer-term needs, or to build up a cash value that you can access, you may want to consider one of the permanent types of life insurance — universal life or whole life. Here are some key features of these three types of policies.

TYPE OF POLICY	PREMIUMS	DURATION	APPROPRIATE FOR...
Term	Level premiums for duration of term; higher upon renewal for subsequent terms	Typically 5, 10 or 20 years; may not be available beyond a certain age	Those looking for a cost-effective way to leave an estate and provide for dependants
Universal	Adjustable; minimum premium required to fund insurance coverage, with any excess deposits building cash value	Permanent, provided premium payments maintained	Investors looking for tax-deferred growth, as well as for life insurance
Whole life	Level until policy fully paid for; typically higher than term insurance of same amount	Permanent, provided premium payments maintained	Those looking to build a tax-deferred cash value, against which funds can be borrowed or withdrawn

Renovating? Protect your home's value now and for the future

If you own a home, "renovation" is a word that has probably featured prominently in household conversations at some point. While the decision to renovate is a highly personal one, based on your needs and desires, your home is also an important financial asset that you want to protect.

Dollars and sense

Before you knock down interior walls or dig a hole for the swimming pool, it pays to know how your renovation decisions could affect your home's value.

Renovating your existing home can help you get a better price, should you decide to sell in the future. But not all renovations enhance value to the point of "paying for themselves." Some don't even come close.

Payback potential

According to the Appraisal Institute of Canada (AIC), the upgrades that are most likely to recoup their cost are bathroom and kitchen renovations, which can pay back 75% to 100% of their cost.

The next most cost-efficient reno is interior or exterior painting, which recoups 50% to 100% of costs. Replacing the shingles on the roof and upgrading the heating system are the next two activities on the AIC's top-five list, with payback potential at 50% to 80% of the cost.

Which renovations are the least likely to give back what they cost? Putting in a swimming pool (10% to 40%) and installing a skylight (0% to 25%).

So if enhancing your home's sale value is a prime motive for renovating, choose your project with care.

Hot home trends

You may also want to consider renovation trends in your decision-making process. For example, energy-efficiency and environmental health are two issues that have grown in importance in recent years — and they will likely continue to grow. Renovations that improve your home in either of these areas provide immediate benefits and could pay dividends years down the road when you sell.

One way to play it safe is by making sure that your renovation is flexible. For example, if you decide to put in an extra bedroom, make sure that the wiring installed would also support using the space as a home office. This will make your home easily adaptable to your changing needs, as well as making it more saleable down the road.

DIY or hire?

Many homeowners take on renovation projects in the belief that it will save them money if they do the work themselves. More often than not, it's a false economy.

Unless you're an experienced builder or contractor, you may not have the skills necessary to complete a high-quality job. Even if you are capable, consider the cost of time involved as well.

If you're hiring a professional, be sure to carry out your due diligence first. Get at least three quotes, ask for references and take a look at the professional's recent work that is similar to your project. Once you've made a decision, in order to protect both parties, the scope, conditions and cost of your project should be set out in a written contract to which you both agree, and which you both sign. ■

Explore your reno financing options

With the high price of building materials, even do-it-yourself renovations can be an expensive undertaking. So how do you cover the cost of your project? Here are a few options to consider.

Dedicated savings fund. Many people consider renovations years in advance of when they actually undertake them. Setting up a regular savings plan now can ensure that cash is available when you need it.

Home equity line of credit. A line of credit offers the advantages of a low interest rate (since your home secures the loan) and flexibility. You can borrow as much as you need (up to your limit) when you need it and pay interest only on the outstanding balance. Repayment is flexible, too. Beyond regular interest payments, you can repay as much of the loan whenever you want.

Mortgage. A mortgage provides another low-interest option that allows you to spread the cost of a renovation over many years. You might choose to renegotiate your existing mortgage for a higher amount, or take out a second mortgage on your home. A mortgage professional can help you explore the alternatives and find the best arrangement at the lowest rates.

Finally, if the property you are renovating is not your principal residence, be sure to keep all receipts. When the property is eventually sold or transferred, these capital expenditures will increase its adjusted cost base, reducing any taxable capital gain.

If home renovation is on your agenda, we can help you review your financing options and make any adjustments necessary to keep your financial plan on track. ■