Lennox Financial Group Inc.

THE NEWSLETTER OF MONEY MANAGEMENT AND FINANCIAL PLANNING IDEAS

# Planning Ahead

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FOCUS ON INVESTING

# Re-contributing to your TFSA? Get the timing right

**The Tax-Free Savings Account (TFSA) is among the most versatile tools for your long-term financial well-being, providing the following benefits:**

- Investment growth is tax-free.
- You don't have to pay tax on the money when you withdraw it.
- You can make withdrawals anytime without government-imposed penalties.
- If you make a withdrawal, you can put the money back.

But be careful about that last point. When you make a withdrawal, you have to wait until the following calendar year to replace it. Get your dates mixed up, and you could get a tax penalty for overcontributing.

## How it works

For example, suppose you contribute the maximum $5,500 in January of 2015. Then, in March, your car needs some unexpected repairs. You withdraw $2,000, planning to replace it as soon as you can.

But don't! The amount withdrawn won't be added to your contribution room until 2016. If you replace it in 2015, you'll be assessed a penalty of 1% per month of the amount of your overcontribution.

## Multiple accounts

Some people mistakenly think that they can open multiple TFSAs and contribute $5,500 per year to each of them. Not so. While you can have more than one TFSA, your combined total deposits cannot exceed your limit.

We can help you determine how to best capitalize on your TFSA whether you're putting money in or taking money out. ■

# Shield your fund portfolio from these 5 stealth bombers

**Most mutual fund investors know about the risks of having too little diversification or not enough exposure to equities. Other risks are less obvious, but that doesn't mean they're any less of a threat. Take a look at these five stealth bombers on a mission to hamper the long-term success of unwary investors. In fact, they're such a threat, they should really be called "wealth bombers."**

### 1. HOME COUNTRY BIAS

Canada is a global leader in some sectors (resources and banking, for example), but we are not a powerhouse in healthcare, information technology, or consumer products. Including international equity and bond funds in your portfolio gives you exposure to other economies, currencies, and market cycles, providing you with the benefits of growth potential outside of Canada as well as protection from domestic market contractions.

### 2. LIQUIDITY

Liquidity, or the ability to get at your money when you need it, is a cornerstone of financial security. If you have significant capital tied up in real estate, locked-in investments, or even GICs, this could be a significant wealth bomber. We don't necessarily have to strip those securities from your portfolio, but rather counterweight them with liquid assets such as money market mutual funds.

### 3. PORTFOLIO DILUTION

Dilution can be a serious problem for investors who have multiple investment accounts at different institutions, as there may be significant overlap between your portfolios. As well, you may be paying more than necessary in fees and expenses to maintain all of those accounts. Consolidation is the answer here. With it, you can eliminate duplication, reduce fees, and ensure your holdings are working effectively together to achieve your overall goals.

### 4. TAXATION

Taxes are like a syphon, draining away your funds' returns. Protecting against this means more than just holding income funds in your registered plans. It means taking advantage of funds that invest specifically to minimize your tax liabilities. Depending on your specific needs and objectives, these might include corporate class funds or return-of-capital funds.

### 5. INFLATION

With inflation maintaining a fairly low profile for the last several years, it's easy to forget how insidious it can be. But over the long term, it's B52-like in its capacity to devastate. Case in point: An item costing $100 50 years ago would cost almost $750 today.[1] In addition, some things tend to go up faster than the overall rate of inflation. Gas is a good example. From 2009 to 2010, the price of gas rose 9.1% while the CPI rose just 1.8%.[2] Protecting yourself from inflation means insulating your portfolio with some of the so-called "inflation-proof" securities, including real estate funds, precious metals funds, oil and gas funds, and real return bond funds.

**Want to learn more about the "stealth bombers" and the steps we can take to protect your portfolio? Feel free to call or make an appointment to come in and speak to us.**

1 Bank of Canada inflation calculator
2 Statistics Canada, 2012 Canada Year Book, "Prices and Price Indexes"

TAX PLANNING

## U.S. residents in Canada take note: Uncle Sam wants your tax dollars

If you're a U.S. resident living in Canada or a greencard holder, legislation that went into effect in July of 2014 may have put you on Uncle Sam's tax radar.

The U.S. government has always required U.S. persons to pay U.S. taxes regardless of where in the world they actually reside. But the Foreign Account Tax Compliance Act (FATCA) takes that a very big step further. It compels foreign governments to actively participate in identifying and reporting those persons.

As a result, Canadian financial institutions now have to report accounts that appear to be held by U.S. persons to the CRA. The CRA then must share its findings with the IRS. And the IRS in turn, will undoubtedly use this information to ensure it's getting its fair share of your tax wallet.

The rules governing who is considered a U.S. person can be complex and can even extend beyond people to estates and trusts. If you are a U.S. citizen, greencard holder, or someone who spends considerable time in the U.S., consider meeting with your tax advisors to get clarity about how this sweeping legislation might affect you. ■

CHARITABLE GIVING

## Giving to overseas charities? You might not get a tax receipt

The Canada Revenue Agency (CRA) recently changed the rules governing foreign charities and their ability to issue tax receipts. And the news isn't good if you support non-Canadian-based organizations.

Foreign charities must now formally apply to the CRA for qualifying status. Only charities that are involved in disaster relief, humanitarian aid, or activities deemed to be in Canada's "national interest" qualify.

As of this writing, the CRA has recognized only a handful of internationally based charities. So while you can still donate to the Aga Khan Foundation, your alma mater overseas, or any other non-Canadian charity, you might not be able to claim the donation on your tax return.

For a complete and current list of the eligible charities, visit www.cra-arc.gc.ca and search for "foreign charities." ■

TAX STRATEGY

## A better way to get your tax refund

Expecting your tax refund to arrive soon? You might think that's reason to celebrate — but think again. After all, a tax refund is just the government's way of paying your money back — without interest.

If you are expecting significant tax deductions in 2015 (perhaps from RRSP contributions, support payments, childcare expenses, or a large charitable donation), you can arrange to get your tax breaks throughout the year, rather than having to wait until 2016. All you need to do is fill out a little paperwork:

- File form T1213, Request to Reduce Tax Deductions at Source, with the Canada Revenue Agency (CRA). Quebec residents also need to file Quebec provincial form TP-1016.
- If your request is approved, your employer will be authorized to reduce the amount of tax withheld at source, leaving you with more money every paycheque.
- To really make the most of this strategy, consider setting up an automatic investment program for that money.

Whether you're looking for advice on how best to use your tax refund or how to avoid getting one next year, we're here to help you. ■

# An RRSP for my child? Yes!

**There is a very common misperception that only adults can open a Registered Retirement Savings Plan (RRSP). In fact, there is no minimum age to open an RRSP. All you need is earned income and to have filed a tax return.**

So whether your kids are in high school or university, if they worked last summer or are working part-time right now, there's a tremendous opportunity to set them on a path toward life-long financial security with this strategy.

## Got a job? File a return

Apart from actually having a job, filing a tax return is the first step to implementing this strategy. Fortunately, this should be a fairly straightforward process thanks to the many online services and the probable simplicity of your child's return. He or she will almost certainly not owe anything and might even get a refund.

The main benefit is that any earned income will immediately start generating all-important RRSP contribution room. In addition, any RRSP contributions actually made do not have to be deducted right away. They can be carried forward indefinitely and claimed when your child is in a higher tax bracket.

## Next steps

Once your child gets his or her Notice of Assessment, we can open the RRSP. (Note that if your child is under the age of majority, we will need a letter of consent from you and you will need to retain trading authority over the account.)

This is where the fun starts: sitting down with your young investor and reviewing the types of funds with the most appeal. Electronics? A tech fund might fit the bill. What about sports, fast food, clothing, or travel? There are lots of equity funds with exposure to the kinds of consumer goods that young people recognize and respect.

And with low minimum investments, it's easy for your child to start investing right away with mutual funds. He or she might even want to set up a regular monthly investment program.

## The magic of compounding

Starting early doesn't just provide tax savings and the valuable lesson of saving. It also makes a truly compelling case for the benefits of compound growth.

Let's say your son invests $500 a year for the next five years and earns a 7% compound return. Even if he never invests another dime, his $2,500 investment will have grown to almost $30,000 by the time he's 50 (30 years).

Want to provide even more incentive to save for the long term? Offer to match his contributions for as long as he's in school. If you both invest $500 for the next five years, using all the same assumptions, he'll have more than $58,000 in 30 years.

## We can help

Encouraging your child to open an RRSP as soon as he or she has earned income to contribute can help instill positive savings habits for the future. We'd be happy to meet with your son or daughter and demonstrate the benefits of saving and investing over the long term. ■



# Reality check!

When we're looking at your long-term goals, we work with you to make "best guess" estimates about inflation, interest rates, investment returns, contribution levels, and so on.

But life doesn't always happen the way we think it will. That's why it's important for us to meet regularly and compare projections to actuals — and make adjustments accordingly.

## Unexpected costs

Suppose it was your intention to invest $5,500 in your Tax-Free Savings Account (TFSA) and $5,500 in your Registered Retirement Savings Plan (RRSP) each year. We would have used those numbers to help gauge your potential retirement date and income stream.

But what if you had to use all of last year's intended RRSP contribution to help pay for a new roof? Now our projection is no longer in sync with your reality. That single missed investment of $5,500 could cost you almost $30,000 25 years from now (assuming a 7% annual compound return).

## Unexpected gains

Good news can also have an impact. What if your investment returns are higher than we've assumed?

In that case, you might be able to reduce the risk level of your current investments, set aside a little less this year, or stick to your plan and decide what to do with the extra funds later (retire early, perhaps?).

The bottom line is that we need to keep it real. That means staying in regular communication and adjusting our projections to ensure your plan reflects the reality of your fiscal life. ■

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