

Time to make New Year's financial resolutions

It's time, once again, to make New Year resolutions. Perhaps you hope to make 2010 the year in which you visit the gym more, take a cooking class or engage in some new volunteer activities.

All of these are worthwhile goals, of course, but why not supplement them with some financial resolutions?

Here are a few to consider:

REDUCE YOUR DEBTS. Canadians are deeper in debt than ever, according to a recent Statistics Canada report. Specifically, the debt-to-income ratio among Canadian households hit a record 145% in the third quarter of 2009. That means for every \$100 of personal disposable income, we now carry \$145 in debt. So in 2010, do what you can to pay down your debts. It may not be easy, but it will be worth the effort, because the lower your debt payments, the more you'll have available to invest for your long-term objectives, such as a comfortable retirement.

BUILD AN EMERGENCY FUND. Try to build an emergency fund containing six to 12 months' worth of living expenses. Keep the money in a liquid account — one that's easily accessible, but separate from the accounts you use to meet your day-to-day expenses. Without such a fund, you may be forced to dip into your investments to pay for unexpected — and costly — items, such

as a car repair or a new furnace.

PUT YOUR CASH TO WORK. The downturn in the financial markets that we saw in 2008 and early 2009 scared some people away from long-term investing and into short-term "cash" vehicles. However, as the subsequent market rally has shown, you could lose out on some gains if you are sitting on the investment "sidelines." If you've already established an emergency fund, consider putting any additional cash to work in investments that help you achieve your goals.

"Stock and bond prices frequently move in different directions, so if the stock market slumps, bonds can help stabilize your portfolio."

BOOST YOUR RRSP CONTRIBUTIONS. Your Registered Retirement Savings Plan (RRSP) is a great way to help build resources for the retirement lifestyle you've envisioned. Your contributions are tax-deductible, and your money grows tax deferred until you start taking withdrawals, presumably when you're in retirement, when your tax rate may be lower. Yet most of your fellow citizens aren't maximizing their RRSP opportunities. In fact, the median contribution was about \$2,700 in 2008, according to Statistics Canada, far less

than the \$20,000 maximum for that year. In 2010, you can put up to \$22,000 into your RRSP. And if you didn't use all your RRSP contribution limits from past years, you can carry forward the unused amount in 2010, which could allow you to exceed the \$22,000 limit. In any case, make it a priority to increase your RRSP contributions every year.

DIVERSIFY YOUR INVESTMENTS. Stock and bond prices frequently move in different directions, so if the stock market slumps, bonds can help stabilize your portfolio. Keep in mind that diversification, by itself, cannot guarantee a profit or protect against loss, but it can help reduce the effects of volatility on your holdings and give you more chances for success.

Obviously, this is a pretty ambitious set of New Year resolutions. But if you could make some progress in each of these areas in 2010, you can help yourself gain ground on your financial goals in 2011 — and beyond.

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Recover taxes

...continued from page 3

pay in the future. A cash refund from the government just when you need it most.

Here's how it works. If your business suffers a loss during the year, it may take that loss and carry it back to apply against profits for any of the preceding three years. If income taxes were paid on the profits during any of those three years, they can be recovered.

Alternatively, these losses can be saved and applied against future profits of the business thus lowering the company's future tax bill. Starting in 2006, these losses can be carried forward for 20 years.

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Tell us how we're doing and you can win!

We would love to hear your opinion on the Bulletin... by Mail.

What do we do well, what could we be doing better? And if you have ideas for business topics and themes, be sure to let us know.

We will compile all of your entries and on March 19 draw three names at random to win one of three free Ajax-Pickering Board of Trade event registrations. E-mail your thoughts to bulletin@apboardoftrade.com.

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The Bulletin...by mail

Information from the Ajax-Pickering Board of Trade

February Edition, 2010

A critical time of year for the bottom line of any business

It's the heart of winter, but of course good business people are thinking ahead to tax deadlines and taking a careful look at their financial picture in 2010.

With that in mind, the Ajax-Pickering Board of Trade decided to consult some of our experts on the topic of taxes and finances. As you will read in this edition, we received great feedback.

This is the first of an expected five editions of the *Bulletin... by Mail* to come your way this year. In an effort to provide more opportunities for members to reach their fellow members with business-to-business advertising, as well as a new chance to bring articles of interest to our membership, the Board has added to our schedule. As a result, in 2010 you will also receive a Bulletin mailout in April, June, September and November.

And, when you reach the back page after reading five timely articles, you will find your invitation to be involved in the process. We are offering an opportunity to win one of three free event registrations to three readers who e-mail their feedback, with ways we can improve or topic ideas we should consider for future editions.

Please enjoy this edition of the *Bulletin... by Mail* and take note of some of the excellent suggestions offered in the following columns to help you get your business financial picture into clear focus.

UPCOMING EVENTS

February

4th: Lunch & Learn – Pickering Public Library
Using social media to secure new clients:
Jeff Quipp of Search Engine People

9th: Networking Breakfast –
Station Street Grill, Ajax

March

4th: Lunch & Learn – IESO and Veridian
Tips on energy conservation, incentive programs
and more. Location to be determined

9th: Networking After 5 – Location to be determined

16th: Exporting to the US: US customs documentation
seminar, Ajax Convention Centre

23rd: Regional Chair's Luncheon –
Victorian Gardens, Ajax

*Pre-registration is required for events. Please visit apboardoftrade.com
and the event listings to find event details and registration forms.*

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'Ladder' your investments to earn a secure return

In most regions across Canada, you're guaranteed some bone-chilling cold in January and February.

Another sure thing during these months, which coincide with RRSP campaigns, is that you'll be facing a sea of financial advice delivered on TV and the radio, in newspapers and magazines, and through e-mail messages.

Your challenge will be to wade into these sometimes uncertain waters and make the right investment decisions to suit your specific financial needs.

Investing in guaranteed investment certificates (GICs) using the laddering

strategy could be a comfortable choice in your overall financial strategy. You'll know that your investment is earning a secure rate of return. And by laddering your investments, you can put your money away for the short term to gain flexibility, as well as for the long term to get better interest rates.

Laddering investments

Laddering works like this: you choose the amount of money you want to invest. Divide this initial amount into five smaller guaranteed investments. Then pick different terms and maturity dates for each of these smaller investments.

Here's an example: Your initial

investment is \$10,000;

- Divide this amount into five separate investments of \$2,000 each;
- Invest \$2,000 each into a one-year, two-year, three-year, four-year and five-year term;
- When your first investment matures after one year, you reinvest that

...please see 'Turn' on page 2



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Research and experimental development tax credits

The federal and provincial governments offer very generous incentives to businesses that engage in Research and Development (R&D) activities.

A successful claim can make your company eligible for a tax credit or refund up to 65% of the cost of the project.

Many companies may be engaging in these activities but are typically not aware of it, due to the perception that this work is performed by people in lab coats at large companies. While this is true, a large amount of R&D is actually carried out by smaller companies.

For example, does your company engage in the following: trial and error testing, experimenting to learn how to improve existing products or improve processes, develop new products or processes, incur cost overruns due to unexpected technical issues, perform lab work in your company or by a third party? These activities may qualify for

an R&D claim. It is also important to understand that success or failure is not required to have a successful claim.

R&D claims are filed with the Canada Revenue Agency (CRA) and can be filed as late as 18 months from the year-end date of your company. For example, if you have an October 31st year-end, you can still file a claim for your October 2008 year-end up to April 30, 2010.

How does the claim process work? If you think you have a qualifying activity, consult a professional in this area. The professional will ask you questions to ensure that you have a potential valid claim and identify if the claim is large enough to file, as there are costs to prepare the filings. They will prepare a technical report on the project and also a cost summary on expenses incurred.

These reports are developed in consultation with the business owner and employees involved. They can also work with your accountant to have them pre-

pare the necessary tax schedules for the claim submission. Once a claim is submitted, it may be audited by CRA and your R&D professional will meet with them to facilitate acceptance of the claim.

Professional fees are typically charged based upon a percentage of the claim or rate per hour for time spent on your claim.

Take a moment to review your business activities. It may be the most financially rewarding time you spend in 2010!

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Turn to an advisor to determine the best plan for you

...continued from page 1

\$2,000, plus the interest you've earned, in a five-year term investment;

- Each year, one of your investments will mature. You would then reinvest in a five-year term, possibly benefiting from a higher interest rate and continuing the laddering process.

**How can laddering benefit you?
Security in guaranteed investments:**

- Minimize interest rate risk: By investing in regular intervals, you can reduce your investment risk. Only a portion of your portfolio comes due at any one time. This strategy can limit your exposure to possible fluctuating interest rates.

- Maximize the long-term rate of return: If you convert your maturities to five-year terms, you can take advantage of the possibility of higher interest rates. Longer-term investments typically offer better interest rates than short-term investments.

- Comfort of guaranteed returns: You're secure with the knowledge that your investments will grow at a constant interest rate, with a guaranteed return at the end of the term.

- Flexibility to respond to investment opportunities and financial needs: Ability to respond to interest rate changes: You'll have access to 20 per cent of your investments every year. If the interest rates are higher, you can invest in longer-term investments. If interest rates drop or temporarily flatten out, you can minimize your risk because only 20 per cent of your investments are maturing at any one time.

- Increased availability: Each year a part of your investment matures and you'll be able to spend it if that's what you need to do. You also have the opportunity

to make new investment decisions.

- Ability to choose the maturity dates: You can have specified investments mature when you need money for a large purchase or special occasion, for example college or wedding expenses.

Your advisor can help you to decide if this strategy matches your long-term and retirement objectives. Using your advisor's knowledge and experience, you'll be better able to sort through the many investment options available and identify how long you want to invest, and what level of risk you're prepared to take: low, medium, or high.

Deciding where to put your money each year is one of the most important financial decisions you make. Talk to your advisor about getting help to build your portfolio around a sound financial strategy that includes your personal investment style, objectives, and risk tolerance.

You may even experience a warm and cozy feeling knowing that the storms of uncertainty won't affect your guaranteed investments.

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Family loans a proven, yet often overlooked strategy

Consider a plan to reduce your overall tax bill

You have an historic opportunity right now: The 1% Prescribed Rate Loan Strategy

If you pay taxes at the highest rate, you know just how punishing Canada's marginal tax system can be. For many Canadians, taxes are their largest annual expense. But if you have family members that earn little or no taxable income, you currently have a historic opportunity to reduce your family's overall tax bill by making prescribed rate loans to family members.

Until March 31, 2010, the Canada Revenue Agency (CRA) prescribed interest rate on family loans will be at a historic low of 1%, creating an unprecedented opportunity to maximize this proven, yet often overlooked strategy. The 1% loan rate can be locked in for life regardless of future rate increases.

There are two ways you use this strategy: The Spousal Loan Strategy and the Family Trust Strategy.

With the Spousal Loan Strategy, you make a loan to your spouse, which is

backed by a simple promissory note and loan agreement setting out the terms of the loan. Then your spouse invests the entire loan amount in his/her own name.

This way, the income attribution rules are avoided and the entire investment income is taxed at your spouse's lower marginal rate – reducing your family's overall taxes. To ensure the income is taxed in your spouse's hands – and not yours – your spouse must

"By loaning the money instead of giving it, you retain ultimate control of the funds, and the investment income can be used for their benefit."

pay you interest at the CRA-prescribed interest rate (which, as mentioned, is currently at an extremely low 1%).

With the Family Trust Strategy, you establish a family trust for your younger family members (children or grandchildren). You loan money to the trust at the CRA-prescribed interest rate. The monies are then invested in the trust and all the investment income (less 1% paid to

you) can be taxed in the hands of the children or grandchildren.

If they have no other income, then each child or grandchild can earn \$10,000 of interest income, \$20,000 of capital gains or \$50,000 of Canadian public company dividend income tax-free every year.

By loaning the money instead of giving it, you retain ultimate control of the funds, and the investment income can be used for their benefit (e.g. to pay for private school expenses, lessons, gifts, etc).

Bear in mind the CRA-prescribed rate may be different after March 31, so ask us for the latest rate.

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Money saving tips for the small business owner

Time may be running out to recover overpayments

As we move into tax season, I'm often asked by business owners for any tips I might be able to pass along to help them save money. There are various ways business owners can keep more money in their pocket. Here are two that come to mind.

Employment Insurance Premiums

I have run across some business owners who have their company deduct Employment Insurance (EI) premiums from their salaries when it's not required. The Employment Insurance Act states that if you own 40 per cent or more of the voting shares of your small business, you shouldn't be deducting EI from your salary.

If you have been, you can file a claim to recover these premiums from the

government. The dollars recovered can add up. There is a time limit however, which is no later than three years from the end of the year in which the overpayment occurred.

"If you enter into the EI program after April 1, 2010, you will have to wait 12 months before you can make a claim."

Having said this, the government recently announced that self-employed individuals may now voluntarily be able to pay into the EI program beginning January 2010 and can collect four types of special benefits (maternity benefits, parental benefits, sickness benefits and compassionate care benefits).

If you enter into the EI program

between January 31, 2010 and April 1, 2010, you can begin collecting these EI special benefits as early as January 2011. If you enter into the EI program after April 1, 2010, you will have to wait 12 months before you can make a claim.

Business losses

In today's economic climate, it is not unusual for a company to incur business losses.

If that's the situation you currently face, there is some good news. These losses can be used to recover income taxes paid in the past, or save you income taxes you might otherwise have to

...please see 'Recover' on page 4



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