

New Year New Rules

The latest federal government budget included one of the most significant changes in income splitting in recent memory. With the passing of the budget came a extremely powerful method of lowering household income taxes. Up to 50% of certain pension income can be split, shifted or allocated from a higher tax-bracket spouse to a lower tax-bracket spouse. This results in a couple paying less tax! This will be accomplished by making a few notations on each spouse's tax return. (There will be a few new lines on the 2007 tax return.) There is no need for the pension payments to be changed—they can still be sent to one spouse—and no need to worry about whose name is on the T4 slip reporting the pension income. In addition to the couple saving tax, a senior may be entitled to the \$2,000 pension income credit that he or she previously was not able to claim.



A portion of tax withheld on the pension can also be split—or shifted—to the lower tax-bracket spouse's tax return. This will prevent a cash flow burden where the lower tax-bracket spouse could have a significant tax liability due on April 30 while the higher tax-bracket spouse has a tax refund coming.

This could also impact the "claw back" either in a good way—allowing the formerly high income spouse to get a greater portion of the Old Age Security **OR** it may cause the formerly lower

income spouse to be in a "claw back" position. Overall this is one of those times where the pensioner WINS!



Eligible pension income

For individuals aged 65 years and over, the major types of qualifying income that can be allocated to a spouse or common law partner are:

- a pension from a registered pension plan (RPP) ;
- income from a registered retirement savings plan (RRSP) annuity; and
- payments out of or under a registered retirement income fund.

For individuals under 65 years of age, the major type of qualifying income that can be allocated to a spouse or common law partner is income from a pension from a registered pension plan.

The Canadian Dollar... what's up?

Over the years, the Canadian dollar has seen some considerable ebbs and flows. In 1864, the American dollar traded at \$2.78, an all-time low for the U.S. currency. In 2002, by contrast, the "Loonie" traded as low as 62 cents.

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Much of the impact of foreign investments has been muted to the extraordinary increases in the Canadian dollar. If you hold any American assets in your portfolio, even though your companies may have done very well (even more than 20% for the year) the currency impact would have been such that you would be fortunate to show a positive return.

Why has the Canadian dollar appreciated?



The rise in the Canadian dollar is caused by a number of factors:

- the relative weakness of the US dollar as of a result of spiralling debt, both public and private
- Canadian resources – oil, gold, base metals, even wheat are at near record highs
- demand is soaring in Asia
- our debt position is good, and improving
- massive amounts of buyouts, almost \$1 Trillion of Canadian companies.



This all lines up for a sustained "short-term" upward pressure on the Canadian dollar. But it's the drive for commodities that has the most impact on our currency. We supply oil to the world, and they have to buy it in Canadian dollars. As the price of oil goes up, so does the need for Canadian dollars.

What could upset the apple cart?

We have to recognize that the Canadian currency appreciation is tied to the price of oil and the acquisition of Canadian companies by foreign entities. The price of oil is in turn dependent on global supply and global concerns around Iraq and Iran.

The appreciating Canadian dollar also makes it more expensive to do business in Canada, so merger and acquisition activity could be lower for Canadian companies. The federal government is reviewing changes to legislation governing acquisitions by foreign entities.

What does this all mean to you?

Last year we took the opportunity to transition many of your accounts to those managed in a "pension style" program. You would achieve portfolio governance that included adjustments for currency on some of your assets while others of the assets are taking advantage of the strong buying opportunity. If you understand that the currencies of the world fluctuate in cycles, then you will realize that this too will pass. It is our intention to allow the management teams to adjust the portfolios according to their models and not try to second guess the experts.

Asset Backed Securities... What are they?

An ABS is essentially the same thing as a mortgage-backed security, except that the securities backing it are assets such as loans, leases, credit card debt, a company's receivables, royalties and so on, and not mortgage-based securities.

The most recent problem in the financial sector of the market is the lack of confidence in the ability of the agencies that value the actual asset and now we see many financial institutions downgrading their portfolios due to the unknown value of what they have lent money out for. This has had a very sharp impact on the value of the financial institutions BUT we feel that this is actually a good buying opportunity for our money managers. How would you like to buy one of the largest banks in the world "on sale"? They still are making huge profits and pay outstanding dividends! We think that once this crisis is over, there will be many happy investors.