

Bottom Line Article – October 2013

From Fall Cleaning to Year End Planning

As has been said by Benjamin Franklin, “By failing to prepare, you are preparing to fail”, it is evident that individuals must plan in order to be able to live and move forward. By now, most taxpayers have received their tax refund or made any outstanding installment payments. Whether a taxpayer is an employee, a sole proprietor or a director of a corporation many questions come to mind as the year comes to a close. Planning effectively is critical to achieving long term success in any profession or stage of life. Before beginning this process, one must assess whether they have the right financial advisor to begin with. Whether the advice is coming from an accountant, investment advisor or wealth planner, receiving the most effective advice is critical in today’s economic environment with low interest rates, low savings and high debt loads. Here are some items to consider:

- 1) How to choose the best professional advisor?
- 2) What inquiries should be made to advisors for Year End Tax preparation?
- 3) How to invest excess cash given the instability in the economy?
- 4) How to optimize your leverage strategy?
- 5) How to keep the books organized?
- 6) What government credits are available?

How to choose the best professional or trusted advisor

Similar to choosing a doctor or real estate agent, choosing the right accountant or investment advisor depends on each personal situation. At this time of year, one should take stock of their situation to ensure that the appropriate team of individuals and professionals are established in order to execute long term strategies. Similar to the other professionals, referrals play a significant role in gaining a trusted advisor. A review of testimonials on an advisor’s website will provide added security of the credibility of the advisor. Finally, a review of articles, blogs and activities and profiles on social media sites such as LinkedIn, Twitter and Facebook will allow the selection process to become even easier. Other questions to consider in choosing a professional advisor include:

1. Reputation of the advisor
2. What qualifications does he/she have?
3. How does the advisor determine the advisor’s needs?
4. How frequent are communications and meetings?
5. What fees will be charged?

Year End Inquiries for Advisors

A number of strategies can be utilized to assist taxpayers in preparation for year end including taking stock of the current financial situation whether it applies to an individual or a business. Questions in each of these areas will assist in preparation for the year ahead and achievement of retirement goals:

Businesses:

1. A review of the most current balance sheet will look at opportunities for improvement and risk areas to be cautious about.
2. A review of all major financial ratios to measure liquidity, debt paying ability and profit margins.
3. Purchase of a corporate life insurance policy.
4. Opening of a corporate investment account.
5. Forming an investment holding company.
6. Business owner should consider Buy/Sell agreements.

Individuals:

1. For individuals preparation of a statement of net worth will allow for improved planning. As a rule of thumb, net worth should be growing by 10% annually
2. An analysis of current investments and trigger capital losses to offset against capital gains. The removal of bad investments will be a great opportunity to rebalance investments to realign the investment mix. Taxpayers must keep in mind of the stop loss rules which prevent losses from being triggered in one calendar year and reacquire the same investment within 30 days.
3. Consider a spousal loan for investments allowing a taxpayer to transfer taxable investment income to the lower income spouse. Although the prescribed rate has been increased to 2%, this strategy is still an effective tax planning strategy.
4. Depending on one's situation, an RRSP, a TFSA or a lump sum mortgage payment are all effective strategies. Speak to a tax advisor for the optimal mix.
5. With rising education costs, preparing for children's education is often overlooked. Maximizing RESP (Registered Retirement Savings Plan) also offers some benefits from the government with the 20% matching program.
6. A will should be drafted up for key life changing events such as the birth of a child, the death of a family member or a change in marital status. There should be adequate coverage to cover off mortgages, loans and time off of work during illness or death of a close family member.

How to invest excess cash

The key to success in ensuring effective management of cash flow risk is to diversify investments. Most planners suggest finding a balanced portfolio according to the individual's risk return matrix. Whether the excess cash is put into equities, mutual funds, bonds or real estate, letting extra cash work for a taxpayer can result in long term benefits. As an individual, some considerations include optimizing the RRSP, TFSA and RESP mix along with mortgage lump sum payments. As an entrepreneur, finding a balance between investments in equipment, technology, inventory or new businesses can prove to be effective strategies. Effective cash flow management by creating a detailed cash flow forecast allows entrepreneurs or individuals to forecast year end cash flows allowing them to prepare for the year end investment process. Now is a great time to start the rebalancing act.

Leveraging Strategies

With investment compounding and tax deductibility of interest paid to earn investment income, leveraging has proven to be an effective leveraging strategy. Most homeowners have been using this as a strategy for decades with the purchase of principle resident homes and using leverage through banks in the form of mortgages. Over the past few years, investors and homeowners can fall into a trap with low interest rates as receiving financing can appear to be cheap, but can result in extreme consequences if care is not taken. Some things to consider when leveraging during times of volatility:

1. Invest for the long run
2. Borrow less than what the bank is willing to offer
3. Remain focused on the strategy
4. Diversify the investment
5. Pay more than the interest only payments

Organization of Books and Records

Now is an opportune time to prepare a budget for the following fiscal year. Take list of goods and services that have been purchased and are costing monthly fees. Preparing the budget is the easy part, sticking to it may become more challenging. Short term and long term goals should be evaluated annually. Goals should be **Specific, Measurable, Attainable, Realistic**, and have a **Timeline**. In addition, previous goals should be reviewed in order to determine what went right and what strategies to alter to change plans going forward. For businesses, preparation of a business plan is an effective strategy. The purchase of a scanner will allow for documents to be organized more effectively. All other documents should be shredded

Taking Advantage of Government Credits Before Year End

There are a number of tax slips that need to be prepared to provide to a tax provider at year end. Here is a list of key items often overlooked:

- Medical expenses including contributions to health care plans to take advantage of the government credit
- Child care expenses. This is a deduction on the tax return
- Interest paid on student loans
- Interest paid on loans to earn investment income
- Tuition slips

As we head into the final weeks of 2013 during periods of economic uncertainty, key questions should be posed to financial advisors. With some of these strategies in place; personal net worth will increase, debt loads will decrease and less earnings will be given to the tax man!