



FINANCIAL PLANNING

Prepare client before calendar flips

By ALI RAZA JAFFER

Benjamin Franklin once said, "By failing to prepare, you are preparing to fail," but is it that essential? 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 instalment 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 advice, which is critical in today's economic environment of low interest rates, low savings and high debt loads. In finding that right person, here are some items to inquire about and consider.

Choosing the best

Similar to choosing a doctor or real estate agent, finding the right accountant or investment advisor depends on each personal situation. At this time of year, clients will take stock to ensure that the appropriate team of individuals and professionals are established to execute long-term strategies. Referrals play a significant role in gaining status as a trusted advisor.

Potential clients will reviewing an advisor's website and testimonials will speak to credibility. They will review articles, blogs and social media activities, including profiles on LinkedIn, Twitter and Facebook, all of which will make the selection process easier.

Other things potential clients will consider when choosing a professional advisor include the advisor's reputation and qualifications, their frequency of communications and meetings, and their fees and billing structure.

Ensure you are well positioned in all of these aspects to gain the clients trust and keep their business.

Year-end inquiries

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 the achievement of retirement goals.

For businesses:

- Review the most current balance sheet to assess opportunities for improvement and risk areas.



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- Review all major financial ratios to measure liquidity, debt-paying ability and profit margins.
- Purchasing of a corporate life insurance policy.
- Opening a corporate investment account.
- Forming an investment holding company.
- Business owners should consider buy/sell agreements.

For individuals:

- Preparing a statement of net worth will allow for improved planning. As a rule of thumb, net worth should be growing by 10 per cent annually.
- An analysis of current investments and trigger capital losses to offset against capital gains. Removal of bad investments will be a great opportunity to rebalance investments to realign the investment mix. Taxpayers must keep in mind the stop loss rules which prevent losses from being triggered in one calendar year and re-acquire the same investment within 30 days.
- 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 two per cent, this strategy is still an effective tax-planning strategy.



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- 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.

- With rising education costs, preparing for children's education is often overlooked. Maximizing RESP also offers some benefits from the government with the 20 per cent matching program.

- 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. Ensure adequate coverage for mortgages, loans and time off of

work during illness or death of a family member.

How to invest excess cash

The key to 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. A detailed cash flow forecast allows entrepreneurs or individuals to forecast year-end cash flows, which allow 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 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. Investors and homeowners can fall into a trap thanks to low interest rates; financing that appears to be cheap can result in extreme consequences if care is not taken. Some things to consider when leveraging during times of volatility:

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

Organize books and records

Now is an opportune time to prepare a budget for the following fiscal year. List goods and services purchased that include monthly fees. Short- 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 change going forward. For businesses, preparation of a business plan is an effective strategy.

A scanner can help organize documents more effectively. All other documents should be shredded.

Government credits

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, which are 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 fewer earnings will be given to the taxman.

Ali Raza Jaffer, CGA, MBA, BComm is a public practitioner that helps small to mid-sized businesses grow their businesses and cash flows. He has 20 years of experience in various senior accounting roles. He works with various industries and specializes in accounting, tax and operations for health care practitioners.