

# FINANCIAL PLANNING



**Robyn K. Thompson, CFP**  
Vice President, RM

**How to contact us**

Phone: 905-695-2320

E-mail: [rthompson@croftgroup.com](mailto:rthompson@croftgroup.com)

## TIME TO REVIEW, REVISE, AND UPDATE YOUR FINANCIAL PLAN

*By Robyn K. Thompson, CFP*

Is it time for a financial review? At year-end most people are caught up in the busy holiday season to give much thought or time to financial planning. We agree. Early in the New Year is the best time to review the past year's progress and set or revise plans for the next year and beyond.

Our goal at Croft Financial Group is to assist you in developing a complete financial plan. By reviewing your current situation and evaluating your ongoing concerns and financial objectives in January, we will be able to review the impact of various lifestyle decisions and assess the effect of the strategies we recommend.

We will design, help you execute, review, and update strategies to:

- Minimize your family tax bill.
- Reduce interest expense.
- Develop a long-term

savings strategy.

- Maximize the value of your estate.
- Meet any other financial goals you may have.

It is important to remember that as financial planners, we are generalists – like a good family financial doctor. Depending on the complexity of your personal situation and the strategy to be implemented, it may be necessary to periodically involve other professionals and specialists. For example, in this issue, we have a timely article by our tax expert, Alan Rowell.

In addition to these services we will:

- Review income tax returns.
- Review wills and powers of attorney.
- Analyze life and disability insurance needs.
- Estimate estate taxes provide all service elements related to your managed investment account.

Our goal is to provide a

professional planning service that allows you to simplify and improve the management of your personal finances, as a means to achieving your goals.

Also, just a word about our new Croft Individual Pension Plan service for business owners and incorporated professionals. This powerful plan can both save on corporate tax and considerably enhance retirement income. I explain in more detail on Page 3.

Call me anytime with any questions you have about your financial plan. And let's make a date to get together in the New Year for a comprehensive review.

Finally, I want to extend to you and your family our best wishes for the holiday season and a healthy, happy, and prosperous New Year. ■

### INSIDE THIS ISSUE

Plan to update your plan	1
Year-end tax tips...for your advisor	2
The power of the Croft Individual Pension Plan	3

#### The Croft Tax-Free Savings Account

Investments grow tax-free.  
Withdrawals at any time,  
tax-free!

Call today for  
more information.

**Robyn Thompson**  
905-695-2320



**Alan Rowell, DFA**  
Tax Services Specialist  
The Accounting Place

## YEAR-END TAX TIPS... FOR YOUR ADVISOR

By Alan Rowell, DFA

At this busy time of the year, most of us don't want to think about or deal with taxes. That's what your advisor is for. Here's a quick checklist of items to talk over with your advisors before year-end. Let *them* take care of it. Let *them* ensure that all of your tax strategies are in place, while there is time to do it before December 31, while you get on with the festivities. With that thought in mind, I have selected some of the areas your advisor might consider in order to minimize the tax bite come April.

### CLAWBACKS

Nothing is more irritating than finding out that you are required to pay back some of the benefits that you received during the year, simply because your income exceeded certain thresholds. For 2010, those thresholds are as shown in the table below.

### AUTOMOBILES

If you qualify for Employment Expenses or operate a vehicle through your business, now is a great time to look at a new vehicle. A tax deduction for depreciation is based on six months in the year you purchase the vehicle – even if you buy it now. Vehicles with a cost of \$30,000 or more are limited to this amount plus applicable PST, HST/GST for depreciation purposes.

If you have kept a 12-month mileage log in 2009 Automobile Mileage Logs rules have changed for 2010. For 2010, you may choose to keep a log for only three consecutive months of the year to arrive at your average use. Be sure to keep your three “busiest” months. In order to take advantage of this reduced paperwork, a 12-month log must be kept first before converting to the three-month option. Remember that if your vehicle is owned by a company and

supplied to you as an employee benefit, taxable benefits will be added to your T4 slip.

### MOBILE PHONES

Hand-held communications devices provided by the employer are not taxable on the business usage. However, the value of personal use must be added to income as a taxable benefit unless:

- The plan's cost is reasonable.
- The plan is a basic plan with a fixed cost.
- And the employee's personal use of the service does not result in additional charges over the basic plan cost.

### MARITAL STATUS CHANGE

A breakdown in marital status is considered effective on the date of separation after a 90-day cooling down period, for lack of a better term. In order to change your marital status to “separated,” you need to be living apart at least

**Need help with tax-filing?**  
Contact us today to discuss how to maximize your tax breaks and cut your taxes to the bone! .

Robyn Thompson  
Direct Line:  
905-695-2320  
E-mail:  
rthompson@croftgroup.com

### When the clawbacks kick in

Credit Available	Clawback Begins at:	Credit Eliminated at:
OAS – Old Age Security	\$66,733	\$108,214
EI – Employment Insurance	\$54,000	Varies
Age Amount	\$32,506	\$75,478
Spousal Amount	\$0	\$10,382
Infirm Dependant > 18	\$5,992	\$10,382
Caregiver Amount	\$14,442	\$18,665

90 days and still be separated as of December 31.

Joint custody of children allows for a change in Child Tax Benefits, Universal Child Care Benefits and the GST/HST credit effective for payments beginning June 2011. This application can be made where a child lives more or less equally with two individuals who live separately; then each individual would be eligible to receive 50% of the benefits in respect of a child that they would have received had they been the only individual eligible to receive these benefits.

#### INTER-SPOUSAL LOANS

Many spouses lend money to their lower income spouse for investment purposes, allowing for the lower income spouse to report the investment income at a lower tax rate. In order to ensure that this is allowed by CRA, an inter-spousal loan needs to be set up. The inter-spousal loan must be at prescribed interest rates, currently 1%, consist of a promissory note and market terms of repayment.

Most importantly, the interest portion of the loan must be paid no later than

January 30 of the following year. It is highly recommended that this amount be paid by cheque and not just “deemed” to have been paid. Many times, attribution rules within the Income Tax Act will come back to bite you on this income-splitting strategy.

As always, should you have any questions or require additional information please contact your Croft Financial Group Advisor, and we will find the answers for you.

On behalf of all of us at Croft Financial Group and The Accounting Place, have a safe and happy holiday season. ■

## THE POWER OF THE CROFT INDIVIDUAL PENSION PLAN

By *Robyn K. Thompson, CFP*

At Croft Financial Group, we strive to offer a full menu of financial, investment, and retirement planning options to our clients. For business owners and incorporated professionals, we now offer the powerful benefits of the Individual Pension Plan (IPP) – a true, registered pension plan with all the advantages of a group plan, but for the benefit of a single person.

An IPP is a savings vehicle designed for business owners and incorporated professionals as a way

to increase retirement savings. If you qualify, you may be able to increase your tax-deferred savings by 25% or more.

#### WHAT IS AN IPP?

An IPP is a defined benefit pension plan set up for the benefit of one person. Pension legislation allows for two types of pension plans:

**Defined contribution plans.** Most small businesses with pension plans have set up this type of plan for their employees.

In this plan, the company agrees to pay a per-

centage of the employee’s wages into the plan each year. The contributions grow tax-free in the plan, and the accumulated total is used to fund the employee’s retirement. But the employer and plan sponsor guarantee only the amount that is contributed. In essence, the defined contribution plan is a form of forced saving, and there is no assurance that the amount saved will provide adequately for retirement. In a defined contribution plan, the employee bears the risk that the plan will not have enough money to



**Robyn K. Thompson, CFP**  
IPP Specialist



R.N. Croft Financial Group Inc.  
218 Steeles Ave. East  
Thornhill, ON  
L3T 1A6  
Canada

**Toll-free: 1-877-249-2884**  
Telephone: 905-695-7777  
Fax: 905-695-9777  
E-mail: info@croftgroup.com  
Website: www.croftgroup.com

Copyright © 2010 by R.N. Croft Financial Group Inc. All rights reserved. Reproduction without permission is prohibited.

The information in this publication is general only. It is not intended as specific investment, financial, legal, or tax advice for any individual. The content is considered accurate at the time of publication, and R.N. Croft Financial Group Inc. reserves the right to change any of it at any time without prior notice.

**IPP questions?**  
Contact us today  
to discuss how a Croft IPP  
can cut business tax and  
increase retirement income.

**Robyn Thompson**  
Direct Line:  
905-695-2320  
E-mail:  
rthompson@croftgroup.com

Continued from Page 3

provide a reasonable retirement.

**Defined benefit plan.** In this plan, the company agrees to pay each employee a retirement income based on a formula related to his or her earnings and years of service.

While the employee is often required to make contributions to the plan, the employer and plan sponsor are responsible for meeting future obligations, and the formula enables employees to estimate their expected retirement income with reasonable accuracy. In this plan, the employer assumes the risk of ensuring that the plan will not cover obligations.

An Individual Pension Plan is *always* a defined benefit plan.

#### HOW AN IPP WORKS

An IPP is a pool of assets set up to fund retirement income for a single beneficiary (employee). In most cases an IPP is set up for the principal in an owner-operated business or partnership or for incorporated professionals. Plans may also be set up for key executives.

Every three years, an actuarial evaluation is completed to determine the funding requirements for the following three years.

Each year, a contribution is made by the company on behalf of the beneficiary, in an amount established by actuarial evaluation. The contribu-

tion is tax-deductible to the company.

If the beneficiary retires before reaching age 65, he or she may also benefit from terminal funding. This allows for additional lump-sum contributions to be made, or to add indexing, bridge benefits, or various other options to the plan. This could result in over \$100,000 in additional tax-deductible expenses in the year of retirement.

On retirement, the beneficiary has three options:

The beneficiary may withdraw the prescribed annual pension amount from the plan. The plan sponsor remains responsible for ensuring the IPP can meet its obligations.

The beneficiary may “commute” his or her pension. This is a process whereby a lump sum related to the cost of providing the future pension is withdrawn from the plan and paid to the beneficiary, who then becomes solely responsible for managing the funds.

The beneficiary may purchase a life annuity with the value of the funds.

Unlike most defined benefit plans, payments from an IPP do not necessarily end with the death of the pensioner’s spouse. If assets remain in the IPP at the time of the beneficiary’s death, the remaining value will be used to pay a survivor pension to the

spouse. Upon the death of the spouse, the remaining assets transfer to the beneficiary’s estate. In short, all of the assets accumulated in the plan are paid out for the benefit of the beneficiary.

#### OTHER BENEFITS

IPP beneficiaries have an edge over RRSP investors in the event of weak investment performance. Under pension legislation, if a pension plan has fewer assets that will be required to fund the income obligation, the company can increase tax-deductible contributions to the plan to increase the asset base. This makes IPPs a great complement to RRSPs for business owners and incorporated professionals.

In addition, IPPs are creditor-proof, providing an additional secure benefit for business owners.

Individual Pension Plans are a powerful retirement planning tool, but they can be technically complicated and must meet a host of legal requirements. At Croft Financial Group we have partnered with one of Canada’s leading retirement, compensation, and actuarial consultants to provide top-shelf service for those considering the Croft Individual Pension Plan.

Give me a call today to discuss how an IPP can benefit you and your business. ■