

FORE SIGHT

PRACTICAL IDEAS FOR BUSINESS MANAGEMENT

Saving Options Abound for Individuals

There's a new trend in Canada – saving money. In fact, it seems that saving is all the rage. According to TD Waterhouse Chief Portfolio Strategist Robert Gorman, Canadians are now saving 6 percent to 8 percent of their annual incomes, which is an enormous change from years past. In 2008, before the economic downturn, the savings rate was near zero. Are you one of the trendy people socking away your cash? If so, congratulations. Saving is an important step on the path to financial security. If you are not saving — or not saving all that you could — there are many options available:

Tax Free Savings Account (TFSA).

Canadian residents age 18 or older can contribute up to \$5,000 per year to a TFSA. While contributions are not tax deductible, all earnings and withdrawals are tax-free, and unused TFSA contribution amounts can be carried forward into future years. Neither income earned within a TFSA nor withdrawals from a TFSA affect eligibility for federal income-tested benefits and credits.

Also, funds can be given to a spouse or common-law partner to invest in a TFSA, and TFSA assets can be transferred to a spouse or common-law partner when the original account holder dies.

Registered Retirement Savings Plan (RRSP).

RRSPs are investment accounts with special tax benefits, designed for retirement savings. Using an RRSP,

individuals with earned income can save the lesser of 18 percent of their earned income or \$22,970. RRSPs are intended as long-term investment vehicles, and must be converted to a form of retirement income, such as a Registered Retirement Income Fund (RRIF) by the end of the calendar year in which you turn 71. With RRSPs, contributions are tax deductible, but funds are taxable as you draw them out. If you haven't contributed the maximum allowed amount to your RRSP in any given year, you are permitted to carry forward unused contribution amounts into future years. The deadline for RRSP contributions is 60 days after year-end.

Individual Pension Plan (IPP).

Business owners can create an IPP, a defined benefit plan often referred to as an RRSP "upgrade." IPPs are creditor-proof plans set up by the company, with contributions made by the company on behalf of designated employees. IPP limits are calculated for each individual participant, according to an actuarial formula based on salary and years of service. They generally allow business owners to put away substantially more money than is allowed in an RRSP. Ideal candidates for an IPP earn at least \$100,000 per year of

T4 income and are between ages 40 and 70. There are more than 20,000 IPPs in Canada now, and they are growing in popularity because of their flexibility and high contribution limits.

Retirement Compensation Account (RCA).

RCAs are another form of savings set up by a company for owners or key employees. Contributions are tax-deductible to the corporation and taxes are paid at the time the RCA is established. RCAs tend to be popular with individuals with very high earnings since they provide a way to deduct income during high-earning years. There are no annual limits, but half of the RCA contribution has to be put into a tax account with Canada Revenue. Of course all of these savings options have their strengths and weaknesses, and should be chosen based on your individual circumstances. Some of the more sophisticated plans also have substantial fees associated with them.

But, it's never too late to start saving — and the earlier you begin, the more you'll have to fund your future.

Are you taking advantage of all of your retirement planning opportunities? Contact us to discuss your options.

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TAX TOPICS

U.S. Real Estate: The Good News & The Bad

One bright spot in the economic downturn is that, as U.S. housing prices have dropped and the Canadian dollar has grown stronger, Canadian residents have been snapping up bargains in American real estate, especially vacation homes.

If you are one of these fortunate homeowners, the income tax situation is straightforward if you don't rent out the property. If there is no rental income associated with the property, you don't have to file any tax-related paperwork in the U.S.

On the other hand, if you rent out the property, you will have to file a U.S. income tax return and it's likely you will owe the U.S. Treasury some money. But, unless your rental property is located in California or



New York, combined local, state and federal tax in the U.S. is generally lower than combined federal and provincial tax in Canada. Moreover, as a Canadian resident, any time you pay income tax related to commercial activity in a foreign country, you'll get a tax credit in Canada. In the case of rental income, as long as the tax rate is lower in the U.S. than in Canada, you'll get a dollar-for-dollar credit on your Canadian taxes.

When You Sell

Under the U.S. Foreign Investment in Real Property Tax Act (FIRPTA) of 1980, as a nonresident alien in the U.S., when you sell your real estate, in most circumstances you are required to pay U.S. withholding tax of 10 percent of the gross amount of the sale. This withholding amount is usually much higher than the tax that will eventually be due on the sale, which is why it is imperative that you apply for a "withholding certificate," a type of withholding exemption, immediately upon signing a sales contract.

The U.S. Internal Revenue Service (IRS) will generally act upon these exemption requests within 90 days. If you fail to apply for a withholding certificate, it could be a year or more before the IRS correlates your actual taxes due against the 10 percent withholding you've paid and issues you a refund.

After You're Gone

If the property is sold after the owner dies, the tax situation changes. In Canada, the property is deemed to have been sold just before the owner died, and the tax due is based only on the gain, if any.

Unfortunately for Canadians, in the U.S., estate tax is based on the actual sale price of the real estate, with no regard to the purchase price or gain. However, for tax years 2011 and 2012, the U.S. offers a \$5 million estate tax exemption, which is made available to Canadians under the U.S.-Canada Tax Treaty. This means that if your worldwide assets are under \$5 million when you die in 2011 or 2012, there is no U.S. estate tax due. (Note:

this \$5 million exemption drops to just \$1 million in 2013.) For a married couple, the exemption amount for 2011 and 2012 is just under \$10 million.



What Can You Do?

Given the complexity of the tax laws, it's wise to consult with your CA before you purchase property in the U.S. There may be ways to structure the ownership of the property to mitigate tax liability via trusts, corporations, partnerships or joint ownerships with children. Of course, each of these arrangements has advantages and disadvantages.

If you already own property in the U.S., it's not too late. There may be ways to change the ownership structure to avoid future tax issues.

If you own foreign real estate or are considering a foreign real estate purchase, contact us to discuss next steps.

Collaborative Divorce

Divorce litigation is rarely pleasant. It's expensive, emotionally difficult and sometimes downright nasty. For those looking for an alternative to traditional litigation, "collaborative divorce" is a relatively new way to resolve disputes without going to court.

How It Works

When couples pursue collaborative divorce, each spouse hires his or her own collaborative divorce lawyer — a legal professional who is specially trained in collaborative practice. You may also add other professional advisors to the team, including financial advisors and child welfare specialists.

Collaborative divorce is a non-adversarial approach. All parties, including the spouses and their attorneys, agree — in writing — not to go to court.

According to the International Society of Collaborative Professionals, the tenets of collaborative divorce include:

- Negotiating a mutually acceptable settlement without court involvement.
- Maintaining open communication and information sharing.
- Creating shared solutions acknowledging the higher priorities of all parties.

Why It Works

Traditional divorces rarely end well. Even if spouses start out with the idea of having a "friendly" divorce, bad feelings, intense emotions and a lengthy litigation process can create long-lasting animosity. Spouses say things to hurt each

other, children become painfully aware of their parents' shortcomings or bad behavior, and generally the partnership ends in a battle.

Also, in traditional divorce, the courts become involved in matters that they were not really designed to handle. Rarely do families benefit from having a court decide the fate of their assets, parenting or child custody issues. Plus, court cases are public matters, and ugly details of failed marriages often find their way out of the courtroom and into the community.



In contrast, a collaborative divorce can minimize hostility and encourage cooperation. The spouses control the timetable and the decision-making process, and communicate directly with each other rather than through their lawyers.

The professionals involved are trained in negotiation and ensure productive discussion. They try to foster agreement, not

disagreement, blame or shame. And because the parties are focused on a mutually agreeable solution, collaborative divorce tends to go faster than traditional divorce. Less time means less money spent on professional services, and more money to divide between the partners.

One way to think of it is that collaborative divorce focuses on the future and not on the past.

Respect Required

Making collaborative divorce work takes commitment from all parties.

In fact, the collaborative divorce contract stipulates that if the process doesn't work and the parties can't agree to a mutually acceptable settlement, the spouses must start over with an entirely new team.

Obviously, collaborative divorce isn't for everybody. Some in the field say it requires a certain amount of "maturity" on behalf of the spouses because the process has no room for ill will or revenge. It also requires professionals and legal advisors trained in collaborative practice.

However, Canada is home to many collaborative practice specialists, in divorce as well as in civil and commercial arenas. As people tire of costly court battles, collaborative practice will likely expand in all areas.

If you are interested in learning more about collaborative divorce, please contact our firm or visit <http://www.collaborativepractice.com>

Must-Do's for Data Security

Canada's Personal Information Protection and Electronic Documents Act (PIPEDA) is designed to protect the personal information of individuals from exploitation or dissemination by companies that collect personal data in the course of doing business. Companies have been working within the boundaries of PIPEDA for many years now, and many of the protection strategies are second nature.

However, personal information is not the only type of data that companies need to protect. Almost every business has records, customer data, intellectual property, HR files, financial records and other information that's proprietary, valuable — and dangerous to your business if it lands in the wrong

hands. To protect your company, be sure to:

Secure your network. Antivirus and antispyware programs are only effective if they're updated. Be sure to install software updates as soon as they are issued to take advantage of any security fixes included.

Limit access to data. All employees do not need access to all systems. For example, there's no reason for anyone outside the finance or accounting department to have access to the company's financial data. Only those in R&D should be able to reach research-related information. Creating limited access passwords and network segregation reduces the likelihood that an insider will inadvertently create a security problem.

Educate your employees. Cybercrime experts refer to data security as a "team sport," so spend time training your team on good security practices. For example, individuals are generally aware that they shouldn't give out their personal information in response to an email, but they may not think about the risks of sharing sensitive business information.

Sometimes it's difficult to identify your own weak spots. Investing in an annual security review may be helpful. An outside expert can also educate you and your colleagues about the latest threats and best data security practices.

Take steps now to guard your business data. We can help you identify ways to protect your company from cybercrime.



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