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Investment Truths

By Nick Slawson, Senior Vice President, Corporate Planning Associates

The great truths of successful investing are simple and timeless; this is what makes it so difficult. You constantly think 'there must be more to it' and continue to ignore the obvious in search of yet another greater strategy.

The simplest and most timely truth is that returns are not based solely on investment performance but rather on investor behaviour. So, the most important item in maximizing returns is not what your investments do, but what you do!

Successful long-term investing is based on a few rather simple principles. It is because they are simple that most of us miss them.

DISCIPLINE

Establish a plan and stick to it! Do not allow yourself to be swayed from your long-term plans for short-term fixes or distractions.

PATIENCE

You are planning for the future. You expect to be around for a long time. You are probably planning to provide for the next generation. So against this backdrop why would you worry about the next quarter's returns? Your portfolio has been put together to meet your targets for 10, 20 and 30 years. Patience has always been rewarded.

FAITH

It is not possible to have successful long-term results if you are constantly worried about today or tomorrow's crisis. By reacting to short-term negative events you will most definitely miss out on long-term positive market performance. How often have you heard "the market's too high"? I first heard it the year I entered this business, 1972. The DJIA was 1020. Today it's around 13,715. Faith in the future is always rewarded.

These three simple principles have been all brought together in our GoldLeaf Investment Program. We use a disciplined investment process which focuses on quality investments with an emphasis on risk management and diversification through asset allocation.

It has been shown over time the overwhelmingly largest variable in achieving successful long-term investment returns is in choosing the right asset class. Asset allocation will be the single largest determinant in overall portfolio return. Conversely, only a small percentage of total return comes from stock selection and market timing.

The diversification that results from having a wide asset class provides the safety you require to avoid putting all your eggs in one basket, or betting on the next wave or hot sector. This gets back to the discipline factor mentioned earlier as so key and prevents those costly distractions.

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Health Care Spending the Tax Free Way

By David Vicic, Senior Vice President, Corporate Planning Associates

For the past few years, we have heard about the crises facing Canadian health care – long wait times, lack of doctors, closed operating rooms, et cetera, et cetera. Some provinces have even discussed the possibility of allowing two tier health care within their borders (editorial note: Two tier health care already exists in this country for those willing and able to soldier the cost – it’s not hard to find). More and more, Canadians are looking for ways to improve their access to medical care and are willing to pay for this access if necessary.

Would it not be great if you could save for medical care spending (much like many Canadians do for retirement by means of an RRSP) on a tax-assisted, or even better, on a tax-free basis? Well, this is available to certain individuals using a Health Spending Account (HSA).

Now before you rush to the phone and call your Senior Vice President to request help in establishing an HSA for you, here’s who can benefit (unfortunately, there are limitations):

- Self-employed individuals
- Business owners
- Employees of a firm where a group HSA has been set up
- Employee(s) of a firm where a “group” HSA has not been set up but who has a sick or special needs child or parent

So what exactly is an HSA? Simply, an HSA is a bank account for health spending. The sole purpose of this account into which deposits are made, is to pay out claims for eligible medical expenses. The account is held with an independent trustee (e.g. trust company) and all claims are administered by a third party administrator.

Each member of the HSA has their own “account” into which contributions are made and from which claims are paid. These contributions are not included in the member’s taxable income in the year in which they are made (i.e. no tax paid by the HSA member). When a claim is

paid out due to an eligible expense reimbursement, the member receives the payment free of any tax, on a dollar for dollar basis (provided there are enough funds in their account). To top it off, the contributions made by the employer are 100% tax deductible against business income in the year in which they were made. No tax is paid by the member of the HSA and the employer receives a business deduction which reduces the amount of tax paid – a win-win situation! In the event that there are unspent contributions in a member’s account at the end of the year, they can be carried forward to future years.

Eligible expenses can include:

Audiologist	Cosmetic Dentistry & Whitening	Cosmetic Surgery
Naturopath	Dental Hygienist	Diabetic Pumps
Chiroprapist	Dental Surgeons	Elderly Parent & Dependent Care
Chiropractic	Dental Technologist	Fertility Drugs & Treatment
Occupational Therapist	Denturist	Hair Replacement Surgery*
Pharmacist Consultation	Orthodontic	Hair Removal Treatments*
Physicians and Surgeons	Contact Lenses	Overseas Specialty Medical Services
Dieticians*	Laser Eye Surgery	Nursing
Physiotherapist	Optician Services	Special Needs Tuition & Services
Medical Radiation Treatments	Optometrist	Speech-Language Pathologists
Psychologist	Prescription Glasses	Vitamins & Supplements*
Medical Laboratory	Prescription Sunglasses	
Respiratory Therapists	Anti-Aging Treatments*	
Massage Therapists (RMT)	Assistive Devices*	

* These items are eligible if they are prescribed/dispensed/supervised by a Registered Medical Practitioner

Another benefit of the HSA is that it can provide a “better bang for your buck” when compared to the use of the medical tax credit.

The list is very comprehensive – an HSA could cover claims for day-to-day medical requirements right up to paying for medical treatment in the United States.

There are a number of limitations that you should be aware of when establishing an HSA. For sole proprietors of unincorporated businesses, the maximum that can be deposited on behalf of an adult is \$1,500 and \$750 per child under 18. Unused contributions will be forfeited if they are not used within 2 years of the date of deposit.

In the case of an incorporated business, there are a number of requirements that must be in place to ensure compliance with the rules set forth by Canada Revenue Agency (CRA).

1. The funds contributed cannot revert to the employer and the sole purpose of the funds is to provide health and welfare benefits for those on whose behalf the company contributed;
2. The contributions must be “reasonable”;
3. Once a contribution schedule has been established for a given year, the schedule cannot be changed, i.e. the contributions must be made; and
4. A trust must be established and the expenses paid out of the trust must qualify as medical expenses as defined by CRA.

For those individuals who are business owners/shareholders, an HSA can retain its “tax free” status provided that the plan is being established for the individual in his/her capacity as an employee. If it is

deemed that you are receiving the benefit on account of being a shareholder rather than employee, a taxable benefit may be generated. That would appear to rule out the use of an HSA in a passive corporation (i.e. investment holding company). As with all arrangements of this type, professional assistance and advice should be sought before moving ahead.

Many group insurance plans have limits on how much can be paid out and who in a family can be covered. Under an HSA, medical claims can be submitted on behalf of the member or a dependent of the member. The definition of a dependent in the HSA context is very broad and includes:

- Dependent child or grandchild of the member or their spouse
- Any dependent, Canadian resident parent, grandparent, brother, sister, uncle, aunt, niece or nephew of the member or spouse

Another benefit of the HSA is that it can provide a “better bang for your buck” when compared to the use of the medical tax credit. You will remember that any contribution made is 100% deductible against business income and reimbursement is made tax-free. This can result in significant savings.

So, whether you want to deal with your family’s current medical requirements, or want to set aside funds for a future medical need, consideration should be given to the establishment of a Health Spending Account. Your health may depend on it!

Investment Truths

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Too often as individuals we display a tendency to huddle around our winners and lop off our losers. We chase the hot sector and overlook or ignore value opportunities. We lack the patience and discipline to stay with our plan and opt for a more immediate payback.

With this long-term, value oriented approach our managers are often able to benefit from those short-term market fluctuations, which cause so many to lose faith and make hasty, unwise decisions.

The managers in the GoldLeaf program are not measured by their month to month or quarter to quarter performance but rather their ability to provide consistent, above average, long-term performance. Their performance is monitored by a strict process to ensure they are meeting our, and more importantly, your expectations.

With this long-term, value oriented approach our managers are often able to benefit from those short-term market fluctuations, which cause so many to lose faith and make hasty, unwise decisions.

The GoldLeaf Program embraces these simple investment truths that you wrestle with and puts them to work providing peace of mind and the time to focus on things you would rather be doing.

Location Write-offs

Moving costs can be deductible, even if the transfer took place in a prior year.

By **Gena Katz, CA, CFP**, Senior principal with Ernst & Young's National Tax Practice in Toronto (Reprinted with the author's permission.)

THIS IS THE FIRST OF A TWO-PART SERIES ON MOVING EXPENSES.

One way Canadians are becoming more like Americans is that we're moving more. And I'm not talking about exercise.

If your clients have relocated within the past year, or are considering a move in the near future, keep in mind there are some tax benefits to be had. A little planning can ease some of the high costs of relocation.

If an individual moves due to a job or business transfer, to start a new job or business, or to attend school, he or she can deduct certain reasonable moving expenses.

In the case of employees and selfemployed people, the move must be within Canada. For students, either the old or new residence must be within Canada. In all cases, the new residence must be a least 40 kilometres closer (by the shortest normal route) to the new place of work or school.

People who live outside Canada, but are considered residents of Canada for tax purposes, may deduct eligible moving expenses for a move outside the country, a move back to Canada from another country, or even between locations outside Canada.

The list of eligible moving expenses is quite specific and includes:

- Travel costs, including a reasonable amount for meals and lodging incurred while moving the taxpayer and household member from the old to the new residence;

- Storage and transportation of household effects;
- Up to 15 days of temporary lodging and meals near the old or new residence;
- Lease cancellation payments relating to an unexpired lease on a former residence;
- Costs relating to the sale of the old home, including real estate commissions, advertising and legal fees, and mortgage discharge penalties (losses incurred on the sale are not deductible);
- Costs incurred when the former residence is sold by the taxpayer or the taxpayer's spouse, legal expenses and any taxes (other than GST) relating to the purchase of a new home;
- Up to \$5,000 of the cost of maintaining the vacant home while efforts are being made to sell the property, including interest, property taxes, insurance, and heating and utility payments; and
- Other sundry fees, such as the costs of revising legal documents to reflect the new address, replacing drivers' licences and vehicle ownership permits, and fees associated with the disconnection and reconnection of utilities.

The amount of eligible moving expenses deductible in a year is limited to employment or business income from the new work or business location. In the case of a student, it's limited to scholarships, fellowships, bursaries or research grants received in the new location.

There will be situations where the eligible moving expenses exceed the income from the new location – such as when a move takes place near the end of a calendar year.

If a person can't deduct moving expenses because of the income limitation, they will be deductible in the following year. But, again, the deductions only apply to eligible income from the new location.

It's important to note expenses need not be incurred in the year of the move to be deductible. Even if a person sells a former residence two years after starting a new job, and incurs selling costs in that year, expenses will still be deductible. Keep in mind, though, the longer the interval between the move and the selling of the former property, the less likely the selling costs will be considered expenses in relation to the relocation.

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