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I S S U E S

A Message from the President

By P. Lee Fisher, *President and CEO*

The summer is over and autumn is upon us. In this quarter's newsletter we turn from the lighter summer fare to the meatier Fall and Winter articles to stimulate our readers and wrap up 2009.

Bryan Monchamp has written on the complex subject of Equity Monetization but, as you will see, he has provided an overview of this risk management strategy that is easy to grasp.

Since December 2008, there has been a great deal in the print and television media on how to make sure your Financial Advisor is registered and that your money is actually in your account (and not in his or her's). Although our credentials are listed on our website, our Managing Editor, Lindsay Hagen, has been exploring the ways you can verify our registrations on your own. I think you will find her article very interesting and I can assure you we will stay on top of this one.

Every year, many lists of "Year End Tax Planning Tips" are published. This year, we have prepared one that includes some unusual tips you may not have thought of before now.

As we bring this year of "downs and ups" to a close, we are preparing a list of articles for our 2010 newsletters. There are some exciting topics coming up and, as always, we encourage you to provide us with your feedback. Thank you for your encouragement in 2009.

P. Lee Fisher
President and CEO

Equity Monetization: Perspective and Strategy

By Bryan Monchamp, *Senior Vice President*

You have committed time and dedication to grow your company for a good portion of your professional career. Or alternatively, you have joined a fast growing firm. Hard work earned you stock options that have paid off and in combination with other company programs and open market purchases, you now hold a significant portion of your wealth in a single stock. Purchasing your company's stock likely has been one of your best all-time investment decisions. However, after seeing the volatility in the markets during the past year, and knowing the value of diversification, you are concerned that this holding may represent too much of your personal wealth. How can you manage this risk, without facing immediate taxation?

An outright sale of shares would likely trigger a taxable gain and possibly the loss of dividend income. Further, many companies have restrictions on employees or other insiders selling shares or using common hedging strategies such as short sales or purchasing put options.

While not a new development in the financial markets, an arrangement with a third party (generally the large banks) known as an "equity monetization" is an effective tool to diversify your investments.

Here is how a standard equity monetization works. You hold \$6 million dollars of company stock. Recognizing that it would reduce your overall risk to allocate half of that position to an investment with less volatility such as bonds, it is arranged with a large bank that they agree to pay you a set dollar amount per share

...continued on page 4

Year End Tax Planning Tips – 2009

By P. Lee Fisher, *President and CEO*

TAX PLANNING SHOULD BE ONGOING AND NOT RELEGATED TO THE FINAL 6 OR 8 WEEKS OF THE YEAR. HOWEVER, NOW THAT THE END OF 2009 IS LOOMING LARGE, HERE IS A SHORT LIST OF SOME OF THE MANY TAX PLANNING STRATEGIES THAT SHOULD BE CONSIDERED AND, IF APPROPRIATE, ACTED UPON BEFORE THE END OF THE YEAR.

1. **RRSP CONTRIBUTION** – OK, so you really have until 60 days after the year end to do this for 2009 but why not do it now? You can make your 2010 contribution anytime after January 1, then it will be done and you will have a check mark on your 2010 list early. This also applies to **Registered Disability Savings Plans**: watch for an upcoming article on these plans and how they can benefit those with disabilities.
2. **TRIGGER CAPITAL GAINS ON PURPOSE** – If someone in your family has little or no income, consider triggering capital gains on purpose. Assuming no other income, an individual could trigger up to \$18,000 of gross capital gains and pay no tax. Once the capital gain is triggered, the securities can be repurchased. This “bumps up the cost base” of your overall investments and minimizes future gains. If you do this every year, in the case of an account in-trust for a child or grandchild, you may find that, by the time the child cashes out his or her in-trust account, the cost base of the investments is close to the fair market value and that little or no tax is due. Contrast this with the scenario if you do not “bump up the cost base” each year. The full gain would be taxable in the year of sale. Of course, you should not actually take the money out of the investment account each year. Triggering the gain can be accomplished by a sale and repurchase on the same day.
3. **TRIGGER CAPITAL LOSSES FOR 2009** – The other side of the capital gains coin is the opportunity that capital losses offer. If you have already triggered capital gains in 2009 on which you will be paying tax, and, if you have unrealized capital losses in your other holdings, consider triggering the losses as they will offset the gains. Unlike the capital gains scenario above, you cannot do a sale and then immediately repurchase the same stock that you sold to trigger the losses; a full 30 days must pass before you repurchase the same stock.
4. **TRIGGER CAPITAL LOSSES TO CARRY BACK TO 2006, 2007 OR 2008** – If you still have unrealized capital losses in your portfolio after offsetting the gains you triggered this year, AND, if you paid tax on capital gains in any of the 3 preceding years (2006 – 2008), you can trigger losses in 2009 and apply them back to have taxes previously paid refunded.
5. **CHARITABLE DONATIONS** – To be able to claim a donation credit in 2009, your donations must be made in 2009. Compare what you have donated year-to-date with the amount you planned to donate and make sure you make those donations before the end of the year. If you have “appreciated assets”, i.e. stocks, mutual funds or stock options that are in a gain position, consider donating them instead of cash. The tax treatment is much more favourable.
6. **TAX FREE SAVINGS ACCOUNT (TFSA)** – If you have taxable income from your investments, consider setting up a Tax Free Savings Account and contribute the maximum \$5,000. Everyone over the age of 18 is entitled to set up a TFSA. Income is earned tax-free in a TFSA. An additional \$5,000 can be contributed each year. You can make your 2010 contribution anytime after January 1, then it will be done and you will have another check mark on your 2010 list early.
7. **DISABILITY TAX CREDIT APPLICATIONS FOR CHILDREN** – If a dependent child has a learning disability that impacts his or her ability to perform certain activities when compared with an average person of the same age, the parents may be entitled to claim a Disability Tax Credit. The CRA requires an application to be submitted and approved prior to claiming the credit. The application also requires input from the child’s physician. Now is the time to speak with your advisor if this could apply to you. It takes time to get the paperwork in place for tax filing time. Now is the time to be proactive on this.
8. **DISABILITY TAX CREDIT APPLICATIONS FOR SENIORS** – Besides being relevant for parents of young children, there are many situations in which expenses of older tax payers could qualify for the Disability Tax Credit. Under certain circumstances, the credit could be transferable to another taxpayer. The key here is to speak with your advisor if you think this may apply to you or someone in your family.
9. **HOME RENOVATIONS** – If you haven’t started them yet but plan to claim the Home Renovation Tax Credit, you must have made your purchases between January 28, 2009 and January 31, 2010. Not much time left! See our Summer 2009 article entitled “Home Renovation Tax Credit”.

...continued on page 4

Advisor Credentials

Lindsay Hagen, *Executive Assistant to the President and CEO, Managing Editor*

IN A CHALLENGING ECONOMIC ENVIRONMENT, HAVING A RESPONSIBLE FINANCIAL PLANNER AND MONEY MANAGER IS EXTREMELY IMPORTANT. BETWEEN THE VOLATILITY OF TODAY'S MARKET AND THE RECENT HIGH-PROFILE INVESTMENT SCANDALS, CONSUMERS ARE MORE CONFUSED THAN EVER ABOUT KNOWING WHO THEY CAN TRUST WITH THEIR MONEY.

There are regulatory bodies that exist to protect consumers, and adequate due diligence is a key part of these controls. There are several things you can do to ensure the protection of yourself and your family. The following are resources available to you online, and will enable you to check the credentials of your advisor.

CFP DESIGNATION

There are multitudes of designations within the financial services industry, but they can be confusing and occasionally misleading. Some credentials can be earned over a weekend, while others require years of study, experience, and rigorous examination. Canadians seeking competent and ethical financial planning services should look for the 'Certified Financial Planner' mark. CFP professionals are the largest identifiable body of licensed financial planners in Canada.

CFP certification provides assurance that a planner is "committed to internationally recognized professional standards of competence, ethics and practice as set and enforced in Canada by Financial Planners Standards Council (FPSC)." Those standards include completion of a thorough education in financial planning, successful completion of a rigorous standardized national examination, financial planning-related work experience and an ethical commitment to putting the client's interest first.

CFP professionals are also held to ongoing rigorous standards through FPSC's continuing education requirements and enforcement processes.

You can identify whether an individual is a CFP professional in good standing with FPSC by performing a search on the FPSC website at: http://www.fpccanada.org/good_standing

R.F.P. DESIGNATION

Registered Financial Planner (R.F.P.) is another professional financial planning designation awarded by the Institute of Advanced Financial Planners. The Institute grants the R.F.P. designation to financial planners who demonstrate competence in the practice of personal financial planning by submitting a high-quality, complex and comprehensive financial plan for peer review and successfully completing a comprehensive examination based on the application of financial planning expertise to a complex case.

To use the R.F.P. designation it is required that a Member meet annual requirements for Professional Membership, including:

- Continuing education requirements of 30 hours annually, covering at least two disciplines in addition to Professional Ethics

- Engaged in financial planning for at least three years, and currently engaged in an active financial planning practice as their primary vocation
- A satisfactory record of business ethics
- Compliance with the IAFP's Code of Ethics and Professional Standards of Practice for R.F.P.s.

By earning the R.F.P. designation, IAFP members demonstrate to their clients and their peers that they are highly competent professionals who actively practice a comprehensive financial planning process.

To perform a search for your advisor on the Institute of Advanced Financial Planners website, use the following web address: http://www.iafp.ca/findaplanner_detailed.php

In the case of CFP professionals, FPSC provides a means for members of the public to file a complaint should they feel their CFP professional has not lived up to their ethical obligations. Similarly, the IAFP offers a process for the public to file complaints about R.F.P.'s. Depending on other licenses your financial planner may hold, they may be accountable to other organizations, such as the Investment Industry Regulatory Organization of Canada (IIROC).

IIROC

IIROC is the national self-regulatory organization, which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. Created in 2008 through the consolidation of the Investment Dealers Association of Canada and Market Regulation Services Inc., IIROC sets high quality regulatory and investment industry standards, protects investors and strengthens market integrity while maintaining efficient and competitive capital markets. IIROC carries out its regulatory responsibilities through setting and enforcing rules regarding the proficiency, business and financial conduct of dealer firms and their registered employees and through setting and enforcing market integrity rules regarding trading activity on Canadian equity marketplaces.

You can view a list of companies (including CPA Securities) that are regulated by IIROC, on their website at:

<http://www.iiroc.ca/English/Investors/MembInfoService/Pages/default.aspx>

If you have any questions, please call your personal advisor at CPA. We would be happy to provide further clarity on any of these designations.

Equity Monetization: Perspective and Strategy

...continued from page 1

some time in the future – say in five years. This is known as a forward contract. The price that they pay you for your shares at that later date is the future value of today's market price, inflated at a low interest rate.

Next you agree to a high ratio (from 75% to 100%), low interest loan with the bank that you use to purchase bonds. As the purpose of the loan is to generate income, the interest paid is deductible in your hands. Your shares are pledged as security for the loan and you may even receive the future regular dividends. While generally not of consequence to you, the bank in order to limit its risk, will sell an equivalent amount of shares short in the market.

The result of the arrangement is that you have swapped the exposure of your stock for a bond portfolio while deferring the tax consequences to the future. You have achieved risk control and diversification in your portfolio.

As these agreements have matured in Canada, there have been improvements in the ability to customize. While subject to change these include:

- Long term forward contracts that delay taxation for ten years or beyond
- The option to participate in the forward agreement but not the loan
- These arrangements can be made with common, preferred and in some circumstances restricted shares. It also may include convertible securities
- To have the forward price linked to something other than the company stock like a basket of securities or an index
- Forward contracts that allow you to participate in price movement of the stock within certain parameters (a ceiling and floor)
- The choice to set the interest rate on the loan for maximum tax advantage; and
- Ability to unwind the structure if desired.

As always, it is important to read the fine print, which in this case may include:

- For insiders the transaction will be reported publicly under securities law
- Minimum transactions generally start at \$1 million dollars with most flexibility available at levels above \$5 million
- Interest may be paid up front and netted against the loan proceeds
- The shares pledged must generally have a price well beyond \$5 per share
- You must have the ability to pledge the shares; and
- The shares must be eligible to be borrowed (for the short sale by the bank)

In my experience, monetization works best for those who have ceased active participation with their company, or have received shares as compensation in a merger or acquisition.

To discuss these and other risk management strategies contact your CPA team.

Year End Tax Planning Tips – 2009

...continued from page 2

10. **SPOUSAL LOANS** – The prescribed interest rate continues to be at an all-time low of 1% and will remain at that rate through to the end of 2009. Consider loaning funds to the lower income spouse to shift income from the higher income spouse. See our Summer 2009 article entitled “Spousal Loans”. Remember, spousal loan interest must be paid by the end of the year to be deductible in 2009 and must be paid no later than January 30, 2010 or the loan becomes “tainted” and all income earned in the investments in 2009 and future years will be taxable to the higher income spouse.

Many of these “tips” require proper planning to be effectively implemented. You should seek professional planning assistance to ensure your actions result in the desired outcome.

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