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A Message from the Managing Editor

By Lindsay Hagen

This issue of Advancing Issues will serve as a reminder for various "housekeeping" topics that are top of mind in the first quarter of each year.

In the first 60 days of every year, Canadians have one last chance to contribute to a registered retirement savings plan (RRSP) and claim those contributions on the previous year's tax return. If you haven't already made your 2009 contribution, time is of the essence. I would be remiss if I didn't remind you that you can also make your 2010 RRSP contribution now.

You can also make your 2010 Tax Free Savings Account (TFSA) contribution; if you haven't yet done 2009, consider making both now. Contributions to a TFSA are not tax deductible but the sooner you make the contribution, the more time it will have to grow tax-free. See the article in this issue on what TFSA changes are new in 2010.

Contributions to a Registered Disability Savings Plan (RDSP) are subject to a lifetime maximum of $200,000, which means there is no annual limit to contributions. There are annual government matching grants, however; see the article later in this issue on RDSPs. In the last quarter's newsletter, points number 7 and 8 under "Year End Tax Planning Tips" remind those who may be eligible for the Disability Tax Credit to complete the paperwork early as the credit cannot be claimed on your tax return until your application is approved by CRA.

This brings us to the upcoming tax season. We have reproduced Ann Ibberson's checklist of normal items to be included when you submit your tax material to us in March. New for 2009, however, is the Home Renovation Tax Credit. If you incurred eligible expenses (after January 27, 2009 and before February 1, 2010) you will need to provide us with all the details to make the claim ???

We hope these reminders are helpful to you.

In this issue, we are re-visiting the subject of Critical Illness Insurance and the benefits it can provide for a young family. It may be of particular interest to Grandparents who are looking for ways to help out their children and grandchildren.

Lastly, the subject of Long Term Care Insurance is one we have touched on in previous articles but as we and our parents are aging, its application is becoming more relevant with every passing day. This article is just an overview; additional information is available through your advisor.

Our next issue will be in the Spring… until then, enjoy the Winter!

Long Term Care and Critical Illness Insurance

By Lisa Becker, *Vice-President*

These two topics are certainly linked but they are definitely NOT the same things. Let's first of all look at ***Critical Illness Insurance***, a subject addressed in an article written by Duncan McEachran in a previous issue of Advancing Issues. To re-read the article, go to our website at www.cpafin.com/newsletters and select Spring 2006. In a nutshell, it is insurance purchased to protect your personal financial assets from the impact of a critical illness. It provides a lump-sum, tax-free payment (up to $2 Million) if diagnosed with a critical illness, as defined in the policy.

Here is some additional information that was not included in that article almost four years ago but which could make a significant difference in the lives of a young family.

Critical Illness Insurance is available for children, not just adults. The child must be at least 31 days old and healthy at the time of application. If the child is diagnosed with one of the listed critical illness, the policy makes a lump sum, tax free payment that the family can use to offset the costs of caring for the child or simply the extra costs the family will incur.

Consider a young two-income family, working full-time to make ends meet. Suddenly one of their children is diagnosed with a critical illness requiring one of the parents to immediately stop working in order to be with their child through treatment. It is possible that treatment will continue for a year or more. Think of the unimaginable emotional and financial strain the family would endure. The added transportation costs, hotels, parking, and meals. What if the working parent didn't have group health coverage? Add to the already onerous expenses the cost of prescription drugs. Nobody wants to consider the unimaginable; that their child could become critically ill, but unfortunately it is a possibility and Critical Illness Insurance can help alleviate the tremendous financial toll it can have on the family.

If the child does not contract a critical illness, as most don't, there is a premium payment option that allows for a return of premiums after 10 or 15 years. This could provide funding for education or any other endeavour.

Consider the benefits Critical Illness Insurance could deliver, in conjunction with an RESP and other savings vehicles. Grandparents are often looking for ways to help out their children and grand-children and this is one way that could prove very beneficial to all.

Now, to ***Long Term Care Insurance***. This is an insurance product that pays a benefit to cover some or all of the expenses incurred as a result of a disability. The expenses can be incurred for care at a long term care facility or at home.

Like the Critical Illness Insurance, this type of insurance provides funds that would have otherwise had to come from the family's pool of assets. It could enable the "at home" lifestyle to continue thereby maintaining independence or it could provide a higher level of care and accommodation at a care facility.

There are several types of policies available and coverage can range from $10 per day to $300 per day. You can select from a policy that will simply reimburse your out-of-pocket expenses or, one that pays a facility for eligible benefits or, one that pays out the daily benefit regardless of the services provided. Obviously, the premiums for these three options increase not only with the level of coverage but also the flexibility.

Similar to other insurance products, the Long Term Care Insurance policy can include options benefits such as: Home Care Benefit; Cost of Living Adjustment; Guaranteed Future Purchase Option; and, Return of Premium Benefit.

2009 Tax Season – Tips for Planning

As you may recall in our winter 2008 newsletter, Ann Ibberson wrote an article called "Planning for Tax Season". It was about organzing your income taxes in a way that would minimize requests for additional information. It is almost that time of year again, and it may be helpful to review some of the items she mentioned. Please note that the original article is available for viewing on our website: www.cpafin.com.

The following is a checklist of items to include with your 2009 taxes:

- Investment Income
- Tuition Expenses
- Medical Receipts
- Employment Expenses
- Charitable Contributions
- Stock Options
- Tax Instalments
- Notices of Assessment

Registered Disability Savings Plans (RDSP)

By Lee Fisher, President & CEO

An RDSP is an account that can be set up for an individual with a severe and prolonged disability. The individual must be eligible for the Disability Tax Credit on their tax return and must be less than 60 years of age.

There is no annual limit on amounts that can be contributed to an RDSP, however, there is a lifetime maximum of $200,000 that may be contributed. Contributions are not tax deductible, however, income earned in the plan is tax-free until the beneficiary begins drawing income from the plan.

The federal government matches contributions at between 100% and 300%, depending on the beneficiary's family income. For example, if the beneficiary's family income is less than $77,664* the government will contribute $3 for every $1 contributed on the first $500. On the next $1,000 contributed, the government will contribute $2 for every $1 contributed.

If the beneficiary's family income exceeds $77,664* , the government will contribute $1 for every $1 contributed on the first $1,000. These government contributions are called Canada Disability Savings Grants (CDSG). The maximum amount an RDSP can receive from the government is $3,500 per year up to a maximum of $70,000 in the beneficiary's lifetime. To be eligible for the government grant, contributions must be made prior to December 31 of the year in which the beneficiary turns 49 years old.

In addition to the CDSG, there is a bond program that provides $1,000 per year to disabled individuals with less than $21,816* of income. The maximum that can be paid under this program is $20,000 and payments cannot continue after the year in which the individual attains age 49.

The beneficiary of an RDSP can receive payments from the RDSP at any age and can use the funds for any purpose. There is no tax on the capital portion of the withdrawals, however, the grants, bonds and growth/income are taxable.

The withdrawal of grants and bonds can be complicated. There is a "10-year rule" in place; if funds from the CDSG or the bond are withdrawn before 10 years have elapsed since the last grant and bond was paid, all grant and bond money received in the past decade must be repaid.

The holder of the RDSP or the beneficiary should seek professional advice when setting up the plan and work with an advisor to ensure funds are suitably invested. Care must be taken in planning withdrawals avoid repayment of the CDSG and bond.

** 2009 figures*

2010 Calendar – Dates To Remember

January 1, 2010	First date eligible to make RRSP contribution for 2010
January 1, 2010	First date eligible to make TFSA contribution for 2010
January 30, 2010	Spousal Loan interest due date to preserve status
March 1, 2010	2009 RRSP Contribution deadline
March 15, 2010	Tax material to be sent to CPA
March 15, 2010	1st Quarter 2010 Tax Instalment due date
April 15, 2010	US Tax Return Filing deadline
April 30, 2010	Canadian Tax Return Filing deadline
June 15, 2010	2nd Quarter 2010 Tax Instalment due date
September 15, 2010	3rd Quarter 2010 Tax Instalment due date
December 1, 2010	Make 2010 RESP contribution (for matching grants)
December 1, 2010	Identify capital loss selling opportunities for 2010
December 1, 2010	Pay Spousal Loan interest
December 15, 2010	4th Quarter 2010 Tax Instalment due date
December 31, 201	Spousal loan interest due date to claim in 2010
December 31, 2010	RESP and RDSP contribution deadlines to receive grants

Tax Free Savings Accounts – 465
What's New in 2010?

By P. Lee Fisher, *President and CEO*

As of January 2, 2009, Canadians could open a Tax Free Savings Account and many took the opportunity to do so. However, not all parameters of the new savings vehicle were sufficiently clarified resulting in some misuse. To eliminate the potential for misuse, the government has fine-tuned the rules. Below is a summary of the basics of a TFSA and the changes that are come into effect in 2010.

1. What is a Tax Free Savings Account? A TFSA is an account whose earnings are tax-free.
2. What investments can be held in a TFSA? Eligible investments include: cash, GICs, stocks, bonds and mutual funds.
3. How much can be invested in a TFSA? Each Canadian resident over 18 years of age can contribute $5,000 per year. Unused contribution room is carried forward. There is no lifetime maximum.
4. Is a TFSA contribution tax-deductible? No.
5. What is the impact of withdrawing funds from the TFSA? Savings can be withdrawn from the TFSA at any time; all withdrawals are tax-free. Withdrawals create additional contribution room in the following year.
6. Can one spouse contribute to the other spouse's TFSA? Yes, there is no income attribution.
7. Can a beneficiary be designated on a TFSA? Yes, in all provinces except Quebec. In Quebec, a beneficiary designation must be made through a Will.
8. Can a TFSA be used to secure a loan? Yes.
9. Can I use borrowed funds to set up a TFSA? Yes, but the interest is not deductible.
10. What is the impact of over-contributing to the TFSA? There is an over-contribution penalty of 1% per month on the amount in excess of the contribution limit.

The Changes / Clarifications in 2010

1. Over-contributions – In addition to the over-contribution penalty of 1% per month noted above, all income earned by the over-contributions will be taxed at 100%.
2. "Prohibited" investments – Shares of a private company of which the contributor owns 10% or more cannot be held in a TFSA. The penalty of doing so is 1% per month and all income resulting from the prohibited investment will be taxed at 100%.
3. "Non-qualified" investments – Land and general partnership units are not qualified investments for a TFSA; any income generated on these investments is taxed at the holder's marginal tax rate.
4. Swap transactions – Property or shares cannot be transferred from an RRSP or non-registered account into a TFSA in exchange for cash or other assets.

The Bottom Line

Because of the tax-free advantages of the TFSA, it makes sense to hold a portion of your fixed income asset allocation in your TFSA. Your CPA advisor can review our list of approved investments for your TFSA. As of now, your cumulative contribution room is $10,000 per person!

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