

“8 Ways To Slash Your Tax Bill”



Authored By:

A handwritten signature in blue ink that reads "Mark Huber" on a light yellow background.

Mark Huber, CFP

SetForLife Financial Services

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From the Desk of Mark Huber, CFP

Dear Fellow Canadian:

You will never retire on the money you save!

You will only retire comfortably on the money YOUR money MAKES on the money you save!

The cash flow resources we all have are finite. However, we ALL get to choose whether we want to be rich or not.

It doesn't matter how much money you make if most of the money you make is going out the door. If you are sending allot of your hard-earned money out the door to the tax man, even if you make a million dollars a year, you aren't really creating wealth at all.

Do you know what the largest annual expense for Canadians is? **Income Taxes.**

In fact, most Canadian tax payers spend more on taxes every year than they do for food, clothing, lodging and transportation combined!

Tax Freedom" day in British Columbia, Canada is now the 1st of July!

Rather ironic isn't it – being Canada Day and all! Essentially we must work 6 months each and every year to just pay the taxes that we owe!

That bite is far bigger than it should or has to be. This should be of grave concern to those who are trying to create wealth, as the Canadian tax system is the largest obstacle preventing us from creating wealth.

Many individuals do not understand just how much they are really spending in taxes every year.

Assume for a moment that you live in British Columbia, Canada. You are a 40-year-old single male no dependents and you make \$65,000 per year. Do you realize that you will be paying over \$30,000 in taxes alone!

Check out this tax freedom day calculator (courtesy of the Fraser Institute) and find out when YOUR personal tax freedom day is. You will be shocked!

<http://www.fraserinstitute.org/tools/Default.htm>

If you live Canada, work for your money and pay taxes to the government, you should be actively looking for, and making, and taking tax deductions. Which you are most likely not.

All Canadians are all entitled to set things up to pay the LEAST amount of taxes possible. This is called tax "avoidance". Tax "avoidance" is legal and is what we should all be practicing! Tax "evasion" on the other hand is using illegal means to "evade" taxes. This should never be practiced – unless, you want "free room and board" courtesy of the government – for about 20 years.

A little education goes a long, long way and can make you wealthy. So here goes.

If you have not properly structured your taxes to receive the maximum benefits allowed by federal tax law, you are losing BIG money which would otherwise be flowing into your bank account!

For most individuals who are working for employment income there is still tax relief that you may not have known.

So here are:

8 Ways To Slash Your Tax Bill!

1. Employer Contributions to RRSPs

Here is a terrific strategy that you should consider. I'm referring to employer-direct RRSP contributions.

If you're wondering how to maximize your RRSP contribution this year, consider approaching your employer to help out. You see, your employer is able to pay all or a portion of your compensation, including bonuses, to your RRSP at any time.

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Provided that your employer believes, on reasonable grounds, that you've got sufficient RRSP contribution room available, your employer can contribute some of your compensation directly to your RRSP and bypass the requirement to withhold income tax on that amount. While you won't escape the requirement to make Canada Pension Plan contributions, or to pay Employment Insurance premiums on that compensation, the income tax savings will enable you put a lot more into your plan.

Consider Shawn's example. Shawn received a \$10,000 bonus this week from his employer. If his employer had paid the amount directly to Shawn, taxes of \$4,000 would have been withheld (assuming a 40-per-cent marginal tax rate), leaving Shawn with just \$6,000 to contribute to his RRSP. That \$6,000 contribution would save Shawn taxes of \$2,400 ($\$6,000 \times 40$ per cent) in 2006.

Shawn's employer, however, paid the \$10,000 directly to Shawn's RRSP carrier as a contribution to his RRSP with the understanding that he had sufficient RRSP contribution room.

In this case, the full \$10,000 made its way to the RRSP because income tax withholdings were bypassed.

The tax savings on a \$10,000 RRSP contribution in Shawn's case is \$4,000 -- much higher than the \$2,400 he would have had.

What's really happening here? The tax savings that result from the \$10,000 RRSP contribution are effectively refunded to Shawn at the time of the RRSP contribution by his employer, and those dollars make their way into his RRSP. As a result, Shawn should not expect a refund when he files his tax return for 2006.

I particularly like this strategy when it comes to bonuses paid early in each New Year. Why? Because you'll be entitled to a deduction in the prior year for the contribution, but you won't pay tax on the bonus until the year it's paid out. So, if you received a bonus in January, 2007, that was contributed by your employer to your RRSP, you'll be entitled to an RRSP deduction in 2006, but won't pay tax on the bonus until 2007.

There's no need to apply to the Canada Customs and Revenue Agency (CCRA) for approval to reduce the tax withheld on the contribution. Regulation 100(3)(c) of Canadian tax law permits your employer to bypass the income tax withholdings on the amount contributed to your plan.

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Your employer needs to have reasonable grounds for believing that you've got sufficient RRSP contribution room. Your employer may simply ask you to verify in writing that you've got sufficient room. This requirement became effective June 7, 2001, when the regulations were amended.

Your employer can simply make the cheque payable to your RRSP carrier, with a note that it is to be deposited to your RRSP account. The amount contributed to your RRSP will show up on your T4 slip for the year it is paid out, but you'll receive an RRSP deduction slip on the flip side to offset that income. Pretty cool eh?

For a different look at RRSPs, download my report –

“The UnCanadian Way To Deal With Your RRSPs”

<http://HowToBeSetForLife.com/resources>

2. Swap Your Debt

Create an interest deduction by converting non-tax deductible interest into a tax deductible cost. How? Liquidate some investments to pay down your non-deductible debt (mortgage, charge cards, etc). Then borrow to replace those investments.

Alternatively, as you pay down your mortgage this year, consider borrowing against the new equity in your home to invest those dollars. Both ideas will create a tax deduction for the interest costs since you'll be borrowing to invest.

Borrowing to invest can AND SHOULD be practiced on any income level.

Let's say that right now you have a \$200 pre-authorized chequing plan with your mutual fund company. In 10 years, assuming growth of 8% you would have contributed \$24,000 of your own dollars to this account, however, your RRSP portfolio would be worth somewhere in the neighborhood of \$35,152. Now for this same \$200 monthly commitment, you could qualify for a loan of \$40,000, which can start compounding today – 10 years sooner. (The interest cost of \$200 per month are tax deductible – just like making an RRSP contribution). Assuming an 8% growth rate you would have a non registered investment pool of approximately \$86,357 or \$46,357 after you pay back the

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loan. This is \$11,205 greater than going the RRSP route! And this is only after 10 years.

The numbers grow exponentially larger – and in increasingly in favor of borrowing to invest as time goes by.

Now that is the reward of having more money - working sooner!

3. Lend In The Family

Income splitting with a lower-income spouse is one of the few legal ways a family can reduce its tax burden. So why not take advantage of it? In fact, loaning money to a lower-income spouse or another family member is even more attractive since Ottawa introduced a prescribed interest rate. In the past, attribution rules required you to report any investment income your spouse earned on money you lent him or her. Now you can charge your spouse a set interest rate on money you lend, (currently 3%), and any resultant investment gains are claimed on his or her returns-possibly at a lower tax rate.

Let's say you lend \$10,000 to your spouse to invest, at borrowing cost of 3%. You have to report that interest as income, but any appreciation in the investment, say, 7%, would be taxed in the hands of your spouse. Your spouse deducts the interest paid, thus paying taxes on the net amount (4%) of the investment income. Over time, as investment returns continue to exceed the cost of the loan, more of the investment income shifts to the lower-income spouse, where it grows tax-effectively. To make this strategy work, there must be a written loan agreement in place and your spouse must pay interest charges before January 30 each year. Bonus: the interest rate stays at 3% as long as there's a balance outstanding.

4. Work From Home

Create a tax deduction for home costs you're already paying. How? By negotiating with your employer the requirement to work from home. Provided your home office is your primary place of work, or where you have a designated area of your home set aside for regularly meeting clients or customers, you may be entitled to deduct a number of costs.

Turn Your Passion Into Cash

Have you ever thought of somehow trying to find how to turn your passion, your knowledge, your interests into cash?

Ever thought of starting your own business?

Does the idea appeal to you? Do you fear the idea? Don't fear it – embrace it!

What if I told you that this is the best time in history to begin. Why? Because of the Internet!

You can now live anywhere, work when you want to and literally make a living "on line".

Industry Canada expects that Canadian Internet commerce will have expected sales of over \$70 Billion US dollars and Global Internet commerce to be in excess of \$3.2 Trillion US dollars!!
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This is the age of "knowledge for profit". The difference is the delivery. Years ago it was principally paper based and had to pass through the postal service. Now, if you have a charge card and you want to make a purchase of any kind – you can! And instantaneously receive your digital download be it a book, audio or video. Times have changed. Interested in getting your piece of the pie?

In fact, home businesses are now considered chic and account for over 3 million Canadians working from their homes.

So find out what you are really keen about and what you want to tell others about.

You can either write about it through articles, short reports, and eBooks.

Or you can talk about it in audios, podcasts, CDs and teleseminars.

Or you can illustrate it with video and webinars.

You can mix up the various mediums and create products that you sell or have others sell for you.

In short, if you can hold a pencil, talk into a microphone and switch on a computer – you can make money!

Become the “go to” person within your field of expertise...

Don't worry that there may be others offering the same type of advice, products or services. They are NOT you. They do not have your personality, your exact perceptions and insights. And they do not share your methodology of writing, speaking or marketing...

So...now that you have identified your passion – its time to turn it into cash.

Remember, everything in the world started as an idea in someone's brain...!

To learn more, and to get tips and tools about beginning your online business head on over to one of my sites here at: <http://SuccessOnTheFly.com>

5. Go With The Flow

Flow-through shares are a great way to combine a business opportunity with tax savings. These are equity investments in venture-oriented companies—often oil & gas, mining or biomedical firms—that need cash for research and development or exploration. Such companies receive tax write-offs from Ottawa in the hopes their discoveries will expand the Canadian economy. Those tax breaks are “flowed through” to the investor, whose investment is tax-deductible.

6. Seek The Best Shelter

Not all investment returns are equal. As with salary income, you'll pay your full marginal tax rate on the interest earned from fixed-income investments such as bonds, GICs and term deposits, while equity-based products are taxed at a lower rate. Stock dividends, for example, qualify for the dividend tax credit. So choose carefully what investments to protect in your registered portfolio. For greater tax efficiency, allocate your most highly taxed investments to your registered portfolio; leave lesser-taxed holdings in your non-registered accounts.

Marginal Tax Rates for British Columbia - 2008

<http://www.taxtips.ca/marginaltaxrates.htm#BC>

As you can see. Different types of investments are taxed differently

Note: It's not you earn that's important – it's what you get to keep after tax!

7. Apply to Reduce Source Deductions

If your 2008 tax return shows a big refund, consider filing Form T1213 to request a reduction in the taxes deducted from your pay. You'll effectively get your refund earlier in the form of increased take-home pay.

Use this form if you are making monthly contributing to RRSPs, paying interest on a loan for investment purposes, have rental losses, have child care deductions, etc.

Get your "Reduce Tax At Source" form here:

<http://www.cra-arc.gc.ca/E/pbg/tf/t1213/>

Example: Child Care Deduction - Tax Savings

Here is a way to increase your monthly cash flow without actually taking away from anything. Did you think your children would ever put money in your pocket? Parents with children under age 7 who pay for day care are allowed to claim a child-care expenses deduction on their income tax return.

Having your employer apply to Revenue Canada for a source deduction waiver allows your boss to reduce the amount of tax taken off your paycheck each month based on the tax refund you will be entitled to receive after you file your income tax return in April. Your employer just has to write to Revenue Canada and supply receipts for day-care costs. Come tax time, a family with 2 children, will be able to claim the maximum \$14,000 child -care deduction (\$7,000 per child). With a tax earner at the 40% marginal tax rate, the tax refund will equal \$5,600. A source deduction waiver, however, would lower taxes withheld by \$467 a month!

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8. Change Property Ownership

Each family unit is entitled to its own principal residence exemption, allowing you to fully shelter from tax the gains on one principal residence. Once a child is 18 years of age or married, he or she is considered to be a separate family unit.

By purchasing a second property in the name of an adult child, or transferring ownership of an existing property to an adult child, you may be able to save tax as a family by multiplying the number of principal residence exemptions used.

This is by no means an exhaustive list, but if you are able to use most of these ideas you will see your tax bill slashed way down!

One Final Note:

Here is a great resource which you should begin to use. And it's FREE!

"My Account", a new online service from CCRA, allows individuals to access their personal income tax data at www.ccra.gc.ca/myaccount

Information on the site includes tax refund information, statements of account – including balances and installment payment information, deductions claimed, RRSP contributions made; contribution limits – as well as the Home Buyers Plan and Lifelong Learning Plan information.

You may access "My Account" by providing the amount reported on Line 150 of the tax return filed in the previous year, along with date of birth and social insurance number and Web access code – printed on every notice of assessment issued after February, 2003.

Taxpayers without a notice of assessment can get an access code by calling the e-service help desk at 1-800-714-7257.

Remember...

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It's not the amount...it's the HABIT!

Start getting in the habit of wringing all the tax deductions out of the tax man as you can.

Plan for next year!

If you are not happy with the amount of taxes you are going to have to pay for this year – it's time to **start planning for next year – NOW!**

Here's To Your Success!

A handwritten signature in blue ink on a light yellow background, reading "Mark Huber".

Mark Huber, CFP

"It's Your Life! Plan For It! Then Live Like You Mean It!"

Mark Huber, CFP is also author of - "The UnCanadian Way" series of reports, Ebooks, audios and videos...

Check out the full library of resources here at:

<http://HowToBeSetForLife.com/resources>

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About the Author

Mark Huber is a proud Canadian living with his wife in scenic Richmond, British Columbia, Canada.

For over 22 years, Mark has worked in the financial services industry. The focus of Mark's financial planning advisory practice is focused exclusively to British Columbian (BC) Canada residents.

Mark's boutique planning practice works with a select group of clients who all share a passionate vision for creating true wealth and living their dream lives.

Mark is author of "The UnCanadian Way" series of eBooks and audios. These powerful resources share innovative ideas and wealth building strategies to Canadians so that they will never again view their home, their mortgage, their debts, or their assets in the same way again.

Visit: <http://HowToBeSetForLife.com/resources>

Mark also maintains a premier financial planning site at:
<http://HowToBeSetForLife.com>

Another of Marks partner sites is here at: <http://HowToGetRidOfYourMortgage.com>



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