





*Mark Huber, CFP, Author*

**“Are you tired of feeling the tax man’s hand in your pocket?”**

**“When it comes to taxes – it’s better to give like Scrooge!”**

	Canada Customs and Revenue Agency	Agence des douanes et du revenu du Canada
<b>1040 EZ 2 DO TAX FORM</b> <b>New Simplified Tax Form</b>		
1. How much money did you make? \$ _____		
2. Send it to us.		
		

**Don't let Ottawa pick your pockets clean...here are –**

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# “13 Little Known Tax Strategies That Will Save You Money!”

## **1 - 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?

Indeed, 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 1%), 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 1%. 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 (6%) 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 1% as long as there's a balance outstanding.

**2 - Swap your debt.** Create an interest deduction by converting non-deductible interest into a deductible cost. How?

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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.

### **3 - Trigger some losses.**

Consider selling some investments that have dropped in value at a loss. Why?

Because the loss that is generated can then be used to offset capital gains you may have made – and paid tax on. Capital losses can go back 3 years and roll forward indefinitely...

### **4 - 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 resources 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.

### **5 - Seek the best shelter**

Not all investment returns are equal. You'll pay your full marginal tax rate on the interest earned from fixed-income investments such as bonds, GICs and term deposits, for example, 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 account.

## **6 - Insure yourself**

When it comes to investing, life insurance isn't usually at the top of the list. But maybe it should be. A universal life policy is a versatile investment vehicle that gives lifelong insurance protection to your family and tax-deferred growth for your savings.

Here's how it works.

You make a monthly payment for the term of the insurance policy (e.g., 10 years). Part of your payment covers the insurance premium, and the rest goes into a tax-sheltered investment fund of your choice.

However, as the years go by you can build tax-free investment assets at retirement, one option available to you is that the money can be used as collateral to secure a bank loan that can provide tax-free retirement income.

When you die, the bank loan is paid off and the beneficiary receives the insurance payout and the investment funds tax-free.

It's reason enough to get a policy if you have a need for insurance for other non-investment reasons.

## **7 - Beat GIC rates with an annuity strategy.**

If you rely on GICs or similar interest-bearing investments for income, you're paying a lot of tax on that interest income. So consider this: Use the cash invested in the GIC to buy a life annuity, which can provide you with more after-tax income than the GIC.

Part of the reason for this is that you'll be receiving a return of your capital over the life of the annuity, and that capital is not taxable. Then, to replace that capital so that there is something left for your heirs, use some of the additional cash flow you'll be taking home to buy a life insurance policy for the amount of that capital you used to purchase the annuity.

In most cases, you'll still be left with more in your hands after taxes than the GIC could provide.

### **8 - Self-administered health plan.**

This strategy turns the conventional medical tax credit into a company tax deduction.

Here's how it works: your company sets up a trust to fund a health plan for its staff. That's 100% deductible for the firm and tax-free to the employees. If you opt for, say, \$4,000 worth of laser eye surgery, your company pays the full amount and deducts it as a business expense.

That saves you from personally shelling out that figure, and then claiming a lesser amount — as low as \$2,000 — as a tax credit on your personal taxes.

### **9 - Own your car and bill the company.**

This one falls under the heading of "defensive driving". If you're driving a car leased by your company, this is a taxable benefit to you personally. And that means trouble for both your company and yourself if you haven't been declaring the taxable benefit.

If you ever get audited (and the Canada Customs and Revenue Agency has been bulking up), you could owe plenty. Should an auditor find your company-leased vehicle is used only occasionally for business, all those lease payments and expenses you've been claiming on your business return would be disallowed. That would leave you on the hook for all taxes due plus interest — as well as the taxable benefits you haven't been including on your personal return.

A lease plus expenses for a luxury car or SUV can run up to \$12,000 — \$14,000 a year. That means you could owe the CCRA an extra \$5,700 in taxes per year audited. And audits tend to cover at least three years.

Many owner-managers are unaware of this hazard. You're better off owning the car yourself and billing the company for related use.

### **10 - Consider a leave or sabbatical.**

It's possible for your employer to establish a deferred salary leave plan, which will allow you to contribute up to one-third of your salary each year to this plan, for up to six years. You won't pay any tax on

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that deferred salary until you take your leave or sabbatical, which must begin no later than six years after the deferral begins.

### **11 - Opt for IPPS (Individual Pension Plans)**

Conceived in 1991 with business owners in mind, IPPs still remain underexploited.

But if you're aged 45 to 50 and have maxed out your RRSP, this defined-benefit plan is a great way to put away large chunks of cash in a tax-sheltered environment.

Set up for you by your company, the plan's benefits are twofold: contributions are tax-free to you and a tax-deductible expense for your company. Investments held in the plan grow and compound tax-free, until you withdraw money when you reach retirement.

Sound too good to be true? There are caveats.

First, there are limits to your contributions, which are typically based on your age, tenure and salary.

Second, as a defined-benefit plan, Canada Revenue Agency currently requires an IPP to grow by 7.5% annually. If your plan depreciates, your company must top up the account. If your plan returns more than 7.5%, your contribution limit drops in the next year.

### **12 - 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.

### **13 - Freeze your estate**

If you want to bequeath your business to your family with minimal tax consequences, consider an estate freeze.

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The tax liability will be limited to the present value of the assets; any future capital gains will be taxed in the hands of the new owners. One common way of performing a freeze involves a reorganization of the firm's share ownership.

First, you as the owner exchange your common shares for voting, redeemable preferred shares of the same value. A new class of common shares is created for your children or grandchildren. Any future growth in the business accrues to their shares, and any future capital gains tax liability will be deferred until those shares are sold. Because your preferred shares have voting rights, you still control the business. Preferred shares can also provide dividends for retirement income or be redeemed.

So, in summary:

**The 5 Pillars Of Tax Planning Are:**

**Deduct, Divide, Defer, Disguise, & Dodge**

**"It's your life. Plan for it. Then live life like you mean it".**

If you have read thus far – we congratulate you!

**However, information without action – is meaningless!**

**So, Your Next Step:** For an immediate, complimentary and confidential review of your situation

Contact:

**Mark Huber, CFP**

Office Tel: 604-207-9970

Email: [askmark@WeSaveYouTaxes.com](mailto:askmark@WeSaveYouTaxes.com)

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## Here's what some have said recently...

Hi!

Thanks for your guidance and advice Mark.

Our biggest regret is that we did not make the changes that we have made under you years ago!

**Craig and Michele - Vancouver, BC**

To whom it may concern,

I recently posed a question to Mark about a possible tax strategy using RRSPs to purchase recreational property.

While it would have been ideal had I been right, I unfortunately was not. In saying that, I found the level of detail and knowledge in Marks response to my unsolicited question to be extremely insightful and refreshing in its depth.

Considering the amount of attention he spent in responding (rare in todays world) demonstrated to me his commitment to helping people. I would not hesitate to recommend Mark to anyone looking for tax advice.

Regards

**Dave Wolstenholme, Vancouver, BC**

To whom it may concern:

Most of us trust our car mechanic, family doctor, postman, but somehow we decide to manage our financial affairs ourselves.

We spend a lot of time reading, researching and making doubtful decisions.

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Everyone can go on internet and buy some stocks or mutual funds.

Information today is basically free, but know-how is priceless.

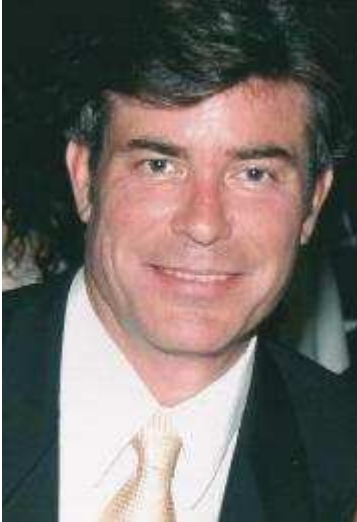
You can buy all the tools you need to fix your teeth, but would you do it yourself?

If your financial well being is important to you, talk to great financial planner – Mark Huber.

It is your map to financial stability.

Sincerely yours,

**A. Z. - Vancouver Island, BC**



**Mark Huber, CFP, Author**

**Contact Information:**

**Mark Huber, CFP**

SetForLife Financial Services  
8380 Ash Street  
Richmond, B.C. V6Y 2S3

Office Tel: 604-207-9970  
Office Fax: 604-207-9971  
Email: [askmark@WeSaveYouTaxes.com](mailto:askmark@WeSaveYouTaxes.com)

Suite 2050-1050 West Pender Street  
Vancouver, B.C. V6E 3S7

Office Hours are Monday-Friday  
9:30am to 4:30pm PST.

Or "by appointment"

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<http://HowToGetRidOfYourMortgage.com>

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**-The End-**

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