



People who care, Plans that perform

Perspective



Can You Lower Your Family Tax Bill?

In Canada each individual is taxed separately on their income. Wouldn't it be great if you, as the high-income earner in your family paying a high marginal tax rate, could transfer some of your income to a lower-income family member to reduce your overall tax bill? This strategy is known as income splitting.

Most forms of income splitting are restricted by the Canada Revenue Agency (CRA) through the attribution rules in the Income Tax Act. For example, you cannot simply give your spouse \$100,000 to invest and have your spouse declare the investment income on their tax return. The income tax rules would "attribute" the investment income back to you and you would pay tax at your higher marginal tax rate. However, there are a few income splitting strategies that CRA will allow.

Family Loans

Provided that the loan is structured properly, you can lend funds to your spouse or minor children (either directly or through a trust) and they can invest the loan proceeds. Any income earned on the funds will be taxed in their hands at their lower marginal tax rate. To ensure that the attribution rules do not apply, the loan must bear interest at a rate that is at least equal to the prescribed rate (set quarterly by CRA) at the time the loan is made, and the annual interest must be paid within 30 days of the end of each calendar year.

This strategy is particularly attractive right now since the prescribed rate is at an all-time low of 1% for April 2009 to June 2009. The rate in effect at the time of the loan remains fixed for the term of the loan.

Consider the following example where Bob has a marginal tax rate of 46% and Betty has a marginal tax rate of 21%. Bob loans Betty \$200,000 at the 1% prescribed rate and Betty invests the money and earns 4%. Betty would pay Bob \$2,000 of loan interest and would deduct this amount as loan interest expense. Bob includes the \$2,000 of interest in his income and pays \$920 of tax, while Betty pays \$1,260 on her net income inclusion. Together they pay \$2,180 of tax, which is \$1,500 lower than if Bob didn't loan the funds to Betty. They would save the \$1,500 each year and this amount could be increased if Betty earns more than 4% on her investments.

	No Loan	Loan to Betty	
	Bob	Bob	Betty
Principal amount	200,000	-200,000	200,000
4% investment return	8,000		8,000
1% loan interest		2,000	-2,000
Net income	8,000	2,000	6,000
Tax payable	3,680	920	1,260
Total tax per family	\$3,680	\$2,180	
Tax savings with family loan	\$1,500		

If you and your spouse implemented this strategy in the past when the prescribed rate was higher, you will have to repay the existing loan and set up a new agreement. You cannot simply change the rate on the existing loan or repay the original loan with a new loan to take advantage of the lower prescribed rate.

Tax-Free Savings Account

Our last newsletter discussed the Tax-Free Savings Accounts (TFSA) in detail, but just to recap, the TFSAs have been available since January 1, 2009. A TFSA is similar to an RRSP since it allows for tax-free investment income. However unlike an RRSP, the TFSA is funded with non-deductible contributions and withdrawals are also not taxed. TFSAs are available for all Canadian residents aged 18 and older and there is no maximum age.

You can contribute to your spouse's TFSA, as well as to your adult children's TFSAs. For 2009, the maximum contribution to a TFSA is \$5,000. Therefore a husband and wife can contribute a total of \$10,000 to their TFSAs. Contributions to your spouse's TFSA do not reduce your contribution room; instead they will reduce your spouse's room. Unlike an RRSP, there are no attribution rules with TFSAs. Income will not be attributed back to the contributor where spousal contributions were made.

Continued on Page 2



Inside this Issue

Page 2

Arca Family Announcements
Group Benefits Fundamentals

Page 3

Inside Arca
Community Business Profile
Your Arca Team

Page 4

Lifestyle Tips



Can You Lower Your Family Tax Bill?

(continued from page 1)

Investments held by a TFSA are similar to investments in an RRSP. However, TFSA investments should not be high-risk investments that could result in capital losses, since these losses cannot be claimed in a TFSA. The TFSA should invest in Canadian or foreign source interest-bearing investments or in foreign dividend-yielding investments, as these are taxed at a rate higher than capital gains and eligible Canadian dividends.

Transfer of Losses between Spouses

Where one spouse has unrealized capital losses while the other has realized capital gains, there may be an opportunity to apply the losses against the gains. This strategy uses the “superficial loss” rules under the Income Tax Act. Generally speaking, the rules deny the capital loss on a disposition of a particular property by a taxpayer and then subsequently add the denied loss to cost base of the particular property purchased by the taxpayer’s spouse. The new cost base for the spouse then results in a capital loss for the spouse when the property is eventually disposed of. The rules only apply if the transactions happen during the 30 days preceding a disposition or the 30 days following the disposition.

As with any tax planning strategy, we suggest you discuss your plans with your professional advisors to ensure that it complies with the latest legislation. Your Arca advisor would be happy to assist in this area.

*Contributor: Christine Black B.Math, CA,CFP, TEP
Arca’s Tax and Estate Planning Consultant*

Group Benefits Fundamentals

Public Health Agency of Canada (PHAC) Travel Advisories

In May of this year, there was an outbreak of H1N1 Flu Virus (Human Swine Flu) in Mexico. At that time, the PHAC recommended postponing elective or non-essential travel to the country.

It is very important to be aware of and pay attention to these advisories with respect to your Out of Country Emergency Health Care Plan. Insurance carriers take PHAC advisories very seriously; to the point that many suspend coverage in the countries affected.

We would strongly suggest that you always consult the PHAC website before you travel. If your destination has a travel advisory posted, call your carrier and confirm that your travel coverage will be in effect if you choose to ignore the warning. You do not want any surprises while travelling outside your home province or Canada.

The PHAC website is www.phac-aspc.gc.ca, then proceed to Travel Health Notices.

*What would you like to see in our next issue?
Let us know at inquiries@arcafinancial.com!*

Recipe

Chocolate Mousse with Ralo Olive Oil

This dessert was prepared for a recent Arca event.
Makes: 6 to 8 servings

Ingredients:

- 200 g. Masters Choice swiss milk chocolate
- 1/3 cup Masters Choice or RALO olive oil
- 1 envelope unflavoured gelatin
- 2 tbsp water
- 3 egg yolks
- 1/4 cup sugar
- 3 egg whites
- 1/4 cup sugar
- 3/4 cup whipping (35%) cream, fresh mint, for garnish

Method:

1. Soften gelatin in water.
2. In a large heatproof bowl over simmering water, melt the chocolate. Slowly stir in the olive oil until smooth. Remove from heat.
3. Meanwhile, with a mixer at medium-speed, beat egg yolks and 1/4 cup sugar until pale yellow and creamy. With mixer at low speed, SLOWLY mix the chocolate-oil mixture into the yolks.
4. Beat egg whites until they form soft peaks. Gradually beat in 1/4 cup of sugar and continue beating until stiff peaks form. In a separate bowl, beat whipping cream until stiff peaks form.
5. Gently fold 1/3 egg whites into the chocolate mixture. Add remaining whites until almost combined. Gently fold in whipped cream and combine.
6. Cover with plastic wrap and chill in fridge for at least 3 hours. When set, scoop out into small bowls and garnish with additional whipped cream and/or a sprig of mint, if desired.

Arca Family Announcements

Congratulations to Carol Parker who retired from Arca in January. Thanks for all your hard work Carol! We wish you all the best and hope you enjoy your retirement!

Welcome to Gary Ward who has joined Arca as a Financial Advisor. Gary has been working in the industry for many years. He will be working out of his office in Conestoga.

Congratulations go to Chris Osborne, who has moved into an advisory position. Good Luck to you Chris!

Best wishes to Mirka Petro who has left in May for her maternity leave. We wish Mirka lots of luck and hope that everyone is healthy and happy in the Petro family this year!

Congratulations to Amanda Hesch who passed her Life License Exam! Excellent job Amanda!

As the saying goes, “Change is the only constant”. We have a number of interdepartmental changes at this time. They consist of the same efficient staff with new positions and responsibilities. Please check out website for these updates. www.arcafinancial.com



Inside Arca

We are very excited to have launched our newly redesigned website in April! Go to www.arcafinancial.com to have a look. We are sure you will find it brighter and easier to navigate and would love to hear your feedback.

And a reminder that our regular summer office hours of 8:00am - 5:00pm Monday to Thursday and 8:00am - 12:30pm Fridays will be in effect June 1 through to September 4.

Please note our office will be closed on Wednesday, July 1 for Canada Day and on August 3 for the Civic Holiday.



Carol's Retirement



Mirka's Baby Shower

Community Business Profile

Axiom Millwriting and Fabrication Inc.

Axiom Millwriting and Fabrication is located on Colby Drive in Waterloo. Dwayne Cormier opened Axiom in 2003. Six years later he employs 75 people.

Much of the firm's success comes down to hard work, but strategy and innovation play a big role. Axiom's prime focus is to provide service to the food industry, but they also do a wide range of general contracting.

The addition of Hazard Analysis Critical Control Points (HACCP) has positioned Axiom as North America's only registered contractor of food safety. Recent outbreaks of listeriosis give Axiom's HACCP registration another preventative measure in an environment where trust is paramount. Axiom is also adding an electrical department to help them round out their offering of talent.

Axiom's expansion and success is sure to continue as they move forward, discovering and exploring more business opportunities.

Check out their website at: www.axiommpf.com or you can reach them at: (519) 880-8521.

In order to offer networking opportunities to our clients and business partners, we will be featuring one business in each newsletter. If you would like your business to be profiled, please contact Rose Frim at (519)745-8500 or by email rfrim@arcafinancial.com.



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*People who care,
Plans that perform*

“Finding your purpose may be a lifelong pursuit, or you may have discovered it when you were 5 years old. There’s no absolute timeline for everyone. That’s a good reason never to give up, to keep on discovering things every day.”

-Donald Trump

Regular Office Hours:

Monday to Friday
8:30 am to 5:00 pm.



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Lifestyle Tips

Friendly Bacteria

The number of bacteria on earth is estimated to be 5,000,000,000,000,000,000,000,000,000. This is five million trillion trillion or 5 x 10 to the 30th power. Bacteria were the first forms of life on earth and date back an estimated 3.5 billion years. Bacteria can be found everywhere, from the upper atmosphere to below the earth’s crust. They can withstand the most inhospitable places - like our digestive systems for example. More than 500-1000 bacterial species (about 100 trillion – mostly friendly bacteria) make themselves at home in the human gastrointestinal tract (GIT) making digestion possible and balancing our intestinal microbiota or micro flora. They also protect and even strengthen our immune system against a multitude of pathogens, otherwise known as unfriendly bacteria that are responsible for causing infections and disease.

Lactic acid bacteria (LAB) have been used over the centuries mainly for fermenting foods such as wine, beer, pickles, sauerkraut and cheese. Intensive studies in microbiology over the last 20 years indicate improved health when these good bacteria are abundant in our systems. Named probiotics in 1953, research has focused on the specific microbes responsible for guarding against harmful germ invasions. The name probiotics means “for life” and are described as, “live microorganisms, which when consumed in adequate amounts, confer a health benefit on the host”.

The earliest studies of bacteria began in the 1600’s, but it wasn’t until 1859 when Louis Pasteur discovered pasteurization (applying heat to reduce harmful pathogens) that greater knowledge was gained. Further observations of the positive role played by bacteria were made at the Pasteur Institute in the early 1900’s by the Russian microbiologist and Nobel Prize laureate Eli Metchnikoff. He believed that foods fermented with LAB could prolong life and were beneficial towards achieving good intestinal health. He religiously drank a glass of “soured or fermented” milk daily. Today this would be the equivalent of yogurt, buttermilk, kefir, and other dairy foods which contain bacterial cultures. He isolated and named the Lactobacillus Bulgaricus bacteria, part of the Lactobacillus species which forms a major part of the LAB group. A French pediatrician named Henry Tissier was then successful in isolating the Bifidobacterium. He discovered that breast-fed children were far better protected against diseases and infections than formula fed babies due to receiving this beneficial bacteria and anti-bodies from their mothers’ milk immediately after birth. The Lactobacillus and Bifidobacterium are the most common bacteria used as probiotics today and can be found mainly in dairy products or supplements.

Prebiotics serve as “food” for beneficial bacteria. Prebiotics are found in the nondigestible parts of certain foods such as garlic, onions, asparagus, bananas & artichokes. Many forms of dietary fibre exhibit levels of prebiotic effects by stimulating the growth of beneficial bacteria in the large intestine, though it is claimed that the best results are obtained “sybiotically”, when probiotics and prebiotics are consumed together.

Evidence from recent studies report that probiotics may boost the immune system, alleviate allergies, protect against certain cancers (colon), lower blood pressure, ease various digestive ailments such as IBS (irritable bowel syndrome) and Crohns, protect against bladder and urinary tract disorders, and cardiovascular disease. Although there have been many claims as to the healing powers of probiotics, more extensive studies are required to definitively prove all the findings. Another factor that determines their effectiveness is adequate amounts of microbes and shelf life as the microbes are easily damaged by heat, light, air and humidity. Currently, Health Canada is still sorting out its policy on labeling requirements.

Contributor: Rose Frim

