

PROSPERITY

Wilkinson & Company LLP's newsletter for our clients and friends



Brian M. Kehoe, CA is Managing Partner of Wilkinson & Company LLP and a Tax Partner in the Wilkinson Tax Group.

The family cottage holds a wealth of memories for grown children who remember swimming and lazy evenings at the campfire, and who long to pass their legacy on to the next generation. However, due to the rapid escalation in property values over the last few years, passing on the family cottage can be more complicated than most people think.

The tax legislation changed in 1982, preventing a couple from designating both a cottage and a second home as principle residences under his or her separate names. Since then, only one property can be designated as the couple's principle residence.

A couple's residence is not subject to capital gains tax. Spousal rollover provisions exist to allow a deferral of tax where ownership is

Keeping the Cottage in the Family

By Brian Kehoe, CA, Managing Partner

left to a surviving spouse. You cannot circumvent capital gains taxation by adding your children onto the cottage deed prior to your passing or by otherwise passing the property on to any of your children during your lifetime or at death. As soon as there is a change of any kind in ownership, the cottage will be subject to deemed disposition rules and capital gains tax.

For example, the Joneses have four children. They have a house in town (which they plan to elect as their primary residence) worth \$200,000; a cottage, for which they paid \$50,000, now worth \$200,000; and \$400,000 in GICs. They plan to divide their assets equally among their children. They leave the house to one child, the cottage to another, and residual cash in the estate to the last two. At the end of the day, there are \$150,000 in capital gains on the cottage,

which at the highest marginal tax rate will be taxed at 23 percent. These capital gains would be funded out of the residual assets of the estate. Thus, one child gets a house worth \$200,000, another gets a cottage worth \$200,000, and the last two get to split what's left of \$400,000, after the taxes have been paid, a legacy potentially \$34,500 less than their siblings. What was supposed to be an equal distribution is now anything but equal.

There are various issues that cottage-owners should consider:

- First, find out whether you have an opportunity to have two principal residence exemptions between spouses, depending on property registrations prior to 1982.



Keeping the Cottage in the Family (continued)

- Second, prepare a record of all improvements and upgrades that have been done since your ownership. Costs of improvements, which inevitably build up over the years, add to your adjusted cost base and reduce your capital gain.
- Third, review the capital gain per year on both your regular home and cottage. You would normally designate the property which has the highest gain per year. Sit down and talk frankly with each child to determine who would be interested in inheriting the cottage – some may not wish to take on the responsibility and may feel that the ongoing maintenance costs and property taxes are more than they care to assume. Others may live too far away.
- Last, discuss the most tax effective options with your advisor at Wilkinson & Company LLP to find best way to pass on the cottage to your children.

Life insurance can be purchased on the last to-die of both you and your spouse and presumably the payout will be sufficient to take care of the taxes on the cottage. Certain trust vehicles are also available, which may cap or defer capital gains taxation exposure until the death of beneficiaries. A careful review of the wording of your will may also allow for inevitable tax liabilities to be fairly distributed to all beneficiaries.

Most importantly, make sure that your will leaves clear directions that reflect you and your children's genuine wishes. Your family cottage may be both the most emotionally significant part of your legacy and the one that has appreciated in value the most: Plan carefully to make its transfer to the next generation a positive inheritance. ■



Rob Cory, CA is a Client Services Partner with Wilkinson and Company LLP.



Jennifer Fisher, FCA is the Client Services Partner of Wilkinson & Company LLP's Kingston Practice.

How Wilkinson Helps Clients

By Rob Cory, CA and Jennifer Fisher, FCA

At Wilkinson & Company LLP, we believe in listening to our clients first to determine how best to help them. Our clients tend to think of us as the experts when it comes to their personal financial issues, like retirement planning, wealth management and estate issues, and when it comes to their business needs, such as mergers and acquisitions and business valuation and restructuring. However, what many of our clients don't realize is that our services are designed to look at the overlap between their personal financial situations and the structure of their business to maximize opportunities for both.



For example, if you are running your own business – as a consultant, a medical practitioner, or as an entrepreneur– it may make sense to incorporate your business. Many owners of small businesses understand this concept, but in the case of a service as opposed to a business operation, the benefits are not always as well understood. Our partners will look at your personal and family situation, as well as at the status of your enterprise, and determine if incorporation is the best financial step. If you are incorporated, there are a number of important ways that we can help:

- We can assist in planning the transition from a proprietorship or a partnership to a corporation;
- We can assist your solicitor so that the corporate structure requirements of the new entity are met;
- We can establish a year-end that works with maximum tax effectiveness;
- We can arrange with CRA to set up all your new accounts, including payroll;
- We can set up your personal compensation on a salary or dividend basis, rather than the net earnings, and can determine how much the net pay should be for you, your spouse and



your children, based on each individual's services to the corporation;

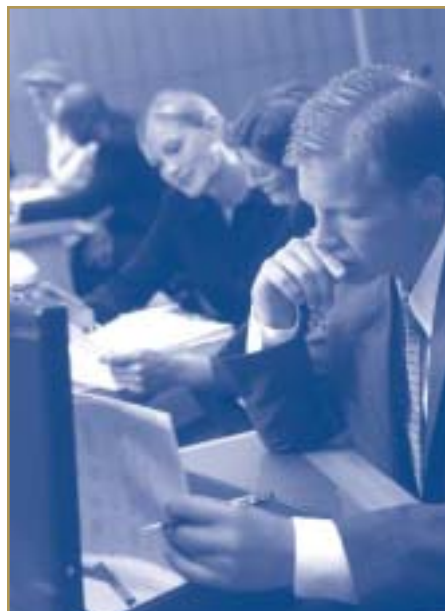
- We can help you to establish lower personal tax installments;
- We can explore income-splitting options to reduce the overall tax bill for your family;
- We can assist with the windup of any previous business structure, including preparing the T4s;
- We can structure a combination of salaries, bonuses and dividends to optimize your after-tax cash, using a variety of tax-planning opportunities; and
- We can look at deferring tax payments in your initial year, by deferring them to future years and potentially saving you thousands of dollars in tax and interest.

For these reasons, no matter what type of business you own, it makes good sense to discuss the advantages of incorporation with your personal advisor at Wilkinson & Company LLP.

In some cases, the owner of a new business will approach Wilkinson & Company LLP for assistance with preparing their necessary financial statements and tax returns. New

clients quickly discover that in our relationship they can rely on us for other, and potentially far more valuable, services.

- We can meet with you and your banker to create a sound financing plan;
- We can propose new ideas and ways to improve your results;
- We can work with your legal advisor to ensure your corporate structure is appropriate;



- We will plan for your estate taxes and assist with your will;
- With our involvement in the profitability of a wide variety of different enterprises, we can coach you to help with the challenges of expansion and company restructuring;
- We can help you maximize your opportunities, whether you are considering leasing versus purchasing, entering the global market, bringing partners into the business, or dealing with your business and industry cycles; and
- Finally, when it comes time for you to start thinking about retirement, we can help you value the business, set up a workable profit-sharing plan, design a succession plan for your children or others, and/or negotiate the sale of your interests.

Some of our partners have served the same clients for more than 30 years. In that time, we have watched their businesses and their families grow. With such a long-term relationship, our advice is personal, well-informed and relevant.

The Wilkinson partners believe strongly that you will benefit most by discussing your business with us well before any change takes place. We can act as a sounding board to analyze where your business is now and where you want it to go. We can explore options regarding everything from start-up financing to succession planning. In most instances, long-term planning is by far the best way to build wealth, minimize taxation and maximize profit. We encourage our clients to talk to us, not only about business matters, challenges and goals, but also about the dreams and aspirations of their families. As informed and objective experts, we will give you the best advice possible to ensure that your personal and business objectives follow a well-planned, stable, and successful course. ■



Robert Yager, CA, CFP, RFP, TEP is a Client Services Partner with Wilkinson & Company LLP and Liaison Partner to Wilkinson Financial Services Inc.

Increasing Retirement Income and Saving Tax

Corporate Insured Annuities Offer Many Benefits for Business Owners

By Robert Yager, CA, CFP, RFP, TEP

Planning your estate can be a difficult task. If done incorrectly, a significant amount of money may be lost in taxes during both your lifetime and after your living years. A widely unknown, yet highly useful investment tool, is a Corporate Insured Annuity. Corporate Insured Annuities can change highly taxed, undistributed investment capital into additional retirement income on a tax-favoured basis. They also offer a very low-risk strategy to ease the transfer of wealth in your corporation while maximizing the pay-out to shareholders.

How Does It Work?

In Canada, when a private corporation has more funds than it needs to run the business, the funds are classified as investment funds rather than operating funds and, as a result, the income from the funds are taxed at a very high rate. A solution is to invest these funds. The best form of investment for your company may be a Corporate Insured Annuity. It combines two well-known financial planning tools and can often generate more after-tax dollars than traditional investments.

A life annuity and permanent insurance policy are taken out on one of the principal shareholders, usually one who is in good health, between the ages of 65 and 80. The life annuity is purchased because of its favourable tax position compared to alternate investments (the interest is taxed

to the corporation and not the capital). The funds the corporation receives from the annuity are used to pay the premium on the life insurance policy and corporate income taxes, while the remainder is available for distribution to shareholders. Depending on your circumstance, the taxable portion of the annuity payment can gradually decline to zero, thus the annual after tax yield is at its lowest level in roughly the third year and will gradually improve thereafter. This continues until the insured life passes on. Upon death, the annuity stops and the death benefit is used to replace the capital invested in the annuity. The corporation pays this amount to the company's shareholders tax-free as capital dividends. These dividends can be very significant.

Is A Corporate Insured Annuity Right For My Company?

Here are some important characteristics you can use to determine whether your company qualifies for a Corporate Insured Annuity:

- 1) Your company must have a significant amount of cash holdings or marketable securities in the range of \$200,000 or more. In cash or securities, this is readily available in conservative or interest bearing investments.
- 2) One or more of your shareholders must be aged 65-80 and in relatively good health. In other words, they must be insurable.
- 3) Your shareholders must be willing to preserve capital for family or charity. This strategy involves tying up a significant amount of funds for a long period of time, and can have negative repercussions if the strategy is abandoned.

The Benefits Are Just Too Great To Ignore

The tax savings for the owners of the corporation are what make this a great strategy. Firstly, the annuity payment increases as time goes on because the taxable portion gradually declines. Secondly, when the shareholder dies, they are deemed to have sold the shares of the corporation for proceeds equal to their fair market value immediately before death. Thirdly, neither the life annuity nor the life insurance will have any impact on the value of the corporation's shares. Lastly, the death benefit is paid tax-free to shareholders, avoiding the capital gains tax on the disposition of corporation shares, and possibly resulting in considerable tax savings.

Wilkinson & Company LLP has creative solutions for all of your financial needs. Call us today to set up an appointment to determine if a Corporate Insured Annuity will help you build after-tax wealth. ■





Jim Coward, CA, CFP is a Client Services Partner with Wilkinson and Company LLP.

As discussed in an earlier Prosperity article, an important aspect of estate planning is the designation of an executor/executrix, someone who is not only trustworthy and astute but who is also aware of the final wishes of the deceased. The executor will act for the deceased, winding up his or her affairs and carrying out the distribution of the estate. In some instances, the executor may be a family member or close friend. But if the estate is complex or if there is conflict among the beneficiaries, a business associate may be a more prudent choice to settle the estate. If you have been asked to act as an executor/executrix, you should understand your obligations before accepting this responsibility.

The Importance of Planning Ahead

It is essential that you have an understanding of your tasks to ensure a smooth execution of the individual's wishes. You need to know the location of pertinent documents, including the will, as well as knowledge of where other information can be accessed. In an ideal world, the individual will leave a complete copy of all important papers such as insurance policies, investments, mortgages and deeds with his or her financial advisor or lawyer.

It is the duty of the executor or executrix to ensure that any special last wishes regarding

What You Need to Know About Being an Executor or Executrix

By Jim Coward, CA, CFP

such matters as special funeral or burial arrangements are carried out. Since the will is generally read after the funeral, you need to be aware of any special instructions prior to death, and you should be ready to step in and assist the family in making the arrangements.

A List of Important Duties

After the funeral, there are a number of tasks you will have to complete as executor or executrix, for instance:

- Review the will and arrange for the professional assistance of a lawyer and/or chartered accountant;
- Notify all beneficiaries, including charities and institutions, and disclose your role as executor and estate trustee;
- Obtain documentation from all relevant financial institutions for assets and liabilities;
- Ensure that the business affairs of the deceased continue to run smoothly until the estate is finalized;
- Open an estate bank account, and arrange for all deposits and payments to be processed through it. In the case of a business, it may be necessary for you to appoint an interim manager;
- Notify life insurance companies, if applicable. Any life insurance policies that do not name a beneficiary will be paid to the estate;
- Notify general insurance companies; you must protect the beneficiaries' interest in the estate by making sure that adequate coverage of assets remains in force;
- Cancel all credit cards, subscriptions and memberships;
- Apply for applicable Canada Pension Plan, and CPP Survivor's benefits;

- As a planning point, you have up to 60 days after the end of the year of death to make a spousal RRSP contribution, on behalf of the deceased, to their spouse's plan; and
- File for any civil service, union, veteran's, or company benefits.

Final Administration of the Estate

Apply for Letters Probate where necessary, and pay any probate tax owing by the estate. You must also settle all debts, including filing income tax returns. Assets requiring liquidation must be realized at their maximum value, which may have further tax implications. Since tax at death can be complex and can have significant implications for the estate, it is important to seek professional advice. Finally, you must oversee the distribution of the remainder of the estate in accordance with the will, withholding any amounts that may be owing to CRA or others, and prepare a full account of your administration of the estate.

If there are underage beneficiaries or a testamentary trust in place, you may have the additional responsibilities of trustee, and your administrative duties may carry on for many years to come. Depending on how onerous your executor duties are, you are entitled to compensation above and beyond any expenses incurred. The courts have developed a fairly precise scale of allowable fees.

Clearly, taking on the duties of executor or executrix is a substantial responsibility; one that requires commitment and the assistance of qualified professionals. Your financial advisors at Wilkinson & Company LLP can help guide you through this process. ■



Dan Dickinson, CA is a Tax Partner in the Wilkinson Tax Group.

RESPs: Smart Saving for Your Child's Education

By Dan Dickinson, CA

A post-secondary education should be available to any Canadian child – certainly you want your child to be able to pick and choose when the time comes! But at the same time, tuition costs are skyrocketing, as other expenses that often accompany the years spent at university or college, such as accommodation, transportation and study aids. It just makes sound financial sense to explore the best way to start saving for your child's future education needs as soon as possible.

Registered Education Savings Plans (RESPs) are investment plans that allow you to make contributions on behalf of a child to a registered financial manager. These plans fall into two categories: individual and group. Individual plans can be further split into family and non-family. The family category is fairly restrictive, applying only to your child or grandchild; whereas, the non-family category may take in nieces and nephews, friends' children, your spouse and even yourself. Group plans are sometimes called pooled or scholarship plans, and relate to a number of children rather than just one. Rules governing these different categories are fairly complex; make sure to get expert advice before you choose.

CRA tracks the contributions made over the years through monitoring the beneficiary's social insurance number. Therefore, if there is more than one RESP registered to that

person, it will be important to keep track of the amounts deposited. For each beneficiary, up to \$4000 can be contributed annually, with a cumulative total limit of \$42,000 in the time between the child's birth and when he or she turns 17. Unlike an RRSP, you cannot carry over amounts not contributed in one year into the next year.



RESPs are attractive for a number of reasons. First, since you are contributing from after-tax dollars, the amount of your overall contribution will eventually be returned to your beneficiary tax-free. Second, earnings on the investments accumulate without tax, enabling them to compound much faster. Third, the growth of the principal will be taxed upon withdrawal at the marginal tax rate of the child, substantially lower than at the rate of the subscriber, and further mitigated by

education and tuition credits. Fourth, eligible investment options are more flexible than for RRSPs; for example, there is no limit on the percentage of foreign investments allowed.

Best of all, is the fact that RESPs may qualify for an additional boost from the Canada Education Savings Grant (CESG). This plan adds 20 percent of your annual contribution, up to a maximum of a \$400 grant on a \$2000 contribution, to your child's nest egg. The Education Savings Grant can handsomely increase the amount available to grow and prosper for future educational needs.

For example, two families, the Browns and the Smiths, set aside identical contributions of \$166.67 per month over 18 years, for their respective sons. The Browns invest their money into an RESP and take full advantage of the CESG. Their promoter invests it in a well-diversified portfolio that earns an annual effective rate of return of eight percent. The Smiths do not invest in an RESP, but their money earns the same effective rate of return, although it is taxed at a marginal rate of 40%. At the end of the eighteen-year period, young Brown's fund has grown to \$93,629, and that of young Smith to \$56,653, a difference of almost \$37,000! In addition to the \$7200 that came into the Brown fund from the CESG, the total growth was \$50,429, whereas the Smith's was only \$20,653.

RESPs offer substantial opportunities for ensuring that your child or grandchild will have more financial resources for his or her academic future. Talk to your Wilkinson & Company LLP advisor today. ■



Rob Deacon, CA, CFE is a Partner with Wilkinson & Company LLP, Forensic Accounting Services Division.

More than 50 million credit cards circulate across Canada, and the ever-growing numbers of criminals who use them fraudulently, constitute a mushrooming expense to banks, consumers and business owners. In 1995, the RCMP reported \$73 million in credit card fraud; in 2003, that number had increased to \$139 million.

The Canadian Bankers Association claims that 800,000 cards were lost or stolen in 2003, accounting for the majority of the frauds. However, seven percent of credit card frauds take place without the thieves accessing the actual card. As long as they have the number and the expiry date, they are in business. Your business!

When a thief has your credit card, it is relatively easy to make purchases on it, unless by doing so, he or she goes over your allowable limit. Some card issuers have sophisticated software that tracks spending patterns and picks up on any uncharacteristic purchases. However, by that time, the damage may be done. Furthermore, thieves are no slouches when it comes to technology. Illegal card readers can skim the data from the magnetic strip on your card. The fraudsters may then sell your information in bulk to organized crime outlets, where it is then mass-produced. Point-of-sale employees have been known to double-swipe a card, once for your legitimate purchase and once for the one they plan to make later. Thieves

Don't Be A Victim of Credit Card Fraud!

By Rob Deacon, CA, CFE

may rummage through wastebaskets to get discarded credit card charge slips. Finally, of course, there is the Internet. On-line purchasing is growing in popularity for obvious reasons, and is an important marketing tool for almost any business, but safeguarding against theft runs directly counter to providing a convenient, easy-to-access service to the customer.

Many banks and credit card companies have excellent policies and technologies to protect their cardholders' interests in case illegitimate purchases are made on their cards. However, the protection may be limited if you don't take 'reasonable care' in protecting your card and the protection offered may not extend to cover corporate cards or PIN-based transactions such as cash advances. The cost of theft not only includes any direct liability from the unauthorized transaction(s), it includes the time and effort to report the incident and correct your account history, as well as the cost to all consumers in the form of higher credit card interest. What about the business owner who supplied the goods or service? He or she has to hope that somewhere along the line, he or she gets reimbursed for what was supplied in good faith.

As a cardholder, there are many safeguards that you can implement to protect yourself from credit card fraud:

- Don't let your card out of your sight and make sure it isn't swiped twice;
- Check your statement carefully;
- Don't give out your PIN or any other number printed on the card to a telephone solicitor;
- Always shred your receipts;
- Keep your card number and the contact information for the issuer handy so that you can quickly report a lost or stolen card;

- Sign your new card as soon as it arrives;
- Use only secure sites for Internet transactions or complete your transactions on the phone. Transactions conducted over the telephone are safer when you are dealing with a known, reputable company and when you are the one to place the call;
- Keep your card in a safe place – remember it's just the same as cash; and
- Periodically request a copy of your credit bureau report (e.g. Equifax 1-800-465-7166).

If you are the owner of a business:

- Treat any cards that your employees can use on behalf of the business the same as you do your personal cards (as suggested above);
- Maintain card data in a secure record-keeping system, whether manual or computerized;
- Train any staff that will be handling customer credit-card transactions; and
- Maintain stringent security precautions including in-store cameras.

To protect the credit card information of your customers:

- Install a firewall on your computer network;
- Get anti-virus software;
- Protect your server; and
- Educate your employees.

By taking these precautions, you protect your profitability, build customer confidence, and minimize computer downtime, lost business and technical expenses. Whether it's your personal credit card, your business' credit card or your customer's credit card, exercise caution – it may be just plastic but remember, it represents real money. ■

Wilkinson & Company LLP – Growing And On The Move

The Partners of Wilkinson & Company LLP are pleased to announce that **Anna Mically** and **Carrie Bernhardt** have earned the following designations. We congratulate them for their significant achievements.



Anna Mically has earned her Certified Fraud Examiner's (CFE) designation from the Association of Certified Fraud Examiners. This designation is awarded to those professionals who have successfully met a stringent set of criteria, including

character, experience and education requirements. Anna began her career with the firm in 1979 and is currently a member of the Forensic and Investigative Accounting Division Team.



Carrie Bernhardt has earned her Certified General Accountant's (CGA) designation from the Association of Certified General Accountants. This designation is awarded to those professionals who have successfully met all of the Association's stringent criteria, including

completion of education requirements.

Carrie began her career with the firm in 1999 and is currently a member of the Audit Team.

Staff Announcements:

Wilkinson & Company LLP extends a warm welcome to the following new employees:

Trenton Office

Helen Hou, MBA is a graduate of York University where she earned her Master of Business Administration. Helen is a CA student and has completed all of her credit hours.

Belleville Office

Chad Cooney is a graduate of Loyalist College and is currently enrolled in the 3rd year of the CGA Program of Professional Studies. His goal is to earn his CGA designation. Chad works in the Belleville office's bookkeeping and accounting systems department.

Brenda Stupendick is currently in the third year of the CGA Program of Professional Studies. Her goal is to earn her CGA designation. Brenda also works in the Belleville office's bookkeeping and accounting systems department.

Noha Yahia is a graduate of Queen's University where she earned her Honours Bachelor of Commerce Degree. She is in the process of registering as a CA student and looks forward to earning her CA designation.

Kingston Office

Rob Mackey is a graduate of Queen's University, where he earned his Honours Bachelor of Commerce Degree with Distinction. Rob has completed all of his course credit hours and is actively pursuing his CA designation.

Saying Goodbye to a Friend and Colleague

June 7th was a day with very sad news, when we learned of the sudden and unexpected passing of **Jo Ann Patrick**. Jo Ann had been a part of the Wilkinson Family for over 31 years and she is greatly missed by everyone who knew her.

Perhaps it was fate that the lead article in the last issue of Prosperity featured a quote from Jo Ann as follows: "The best thing about Wilkinson & Company LLP has been all the people I have worked with; they're a wonderful bunch."

These are words that could very well be said about Jo Ann by all who have worked with her over the years. One of the best things about Wilkinson & Company LLP is the opportunity to work with wonderful people like Jo Ann Patrick. Jo Ann, you will always have a place in the hearts and minds of all your colleagues. Your spirit lives on. ■



Wilkinson & Company LLP
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