

New Tax Changes Give Seniors Tax Relief

When we think of Halloween we think of ghosts, goblins, and other ghoulish creatures. We think of children getting dressed up and going out trick or treating. Thoughts of Halloween typically don't include radical tax changes, until recently. On Halloween night 2006, Finance Minister Jim Flaherty announced a tax fairness plan that allows pension income to be split. This will generate a massive tax savings for many Canadian senior citizens.

Simply put, income splitting is transferring money from a higher income earner to a lower income earner so the money is taxed at a lower rate. Until now, income splitting was not an easy task to do, particularly if you wanted to split your income with your spouse. In the past, the only legislated way to split income was to contribute to a spousal RRSP. Spousal RRSPs allow a couple to create a retirement fund for both partners. If you have a significantly higher income than your spouse, contributing to a spousal RRSP serves to immediately defer taxes and reduce taxes in retirement. The immediate benefit is to the contributor as he or she claims the deduction on his or her income tax; the long-term benefit is a reduction of the overall family tax bill as income will be available for withdrawal by each spouse during retirement.

Canadian residents who receive eligible pension income can allocate up to one half

of that income to their resident spouse or common-law partner. Pension income that qualifies for this income splitting is the same pension income that qualifies you for the pension income tax credit. For those 65 years of age or older, this includes lifetime annuity payments under a registered pension plan (RPP), RRSP, deferred profit-sharing plan (DPSP), or registered income fund (RRIF). If you're under 65, eligible pension income includes lifetime annuity payments under an RPP and certain payments received as a result of the death of your spouse or common-law partner.

As of January 1, 2007, the amount you allocate to your spouse is deductible to you on your tax return; your spouse must report the same amount on his or her tax return. Both spouses must agree to the allocation on their tax returns for each year. For example, Bob and Betty annually receive \$60,000 in pension income. Bob receives \$48,000 and his wife Betty receives \$12,000 in pension income. If they split their pension income so they both report a taxable income of \$30,000, Bob and Betty lower their tax liability. In this case, Bob and Betty can expect a tax savings of approximately \$2,000. What would you do with an extra \$2,000 in your pocket?

If you have any questions about how to make pension income splitting work for you, do not hesitate to give me a call.

Harry Perler, CFP



Harry Perler, CFP Anita Perler
Senior Partners

WEB

www.perlerfinancial.com

EMAIL

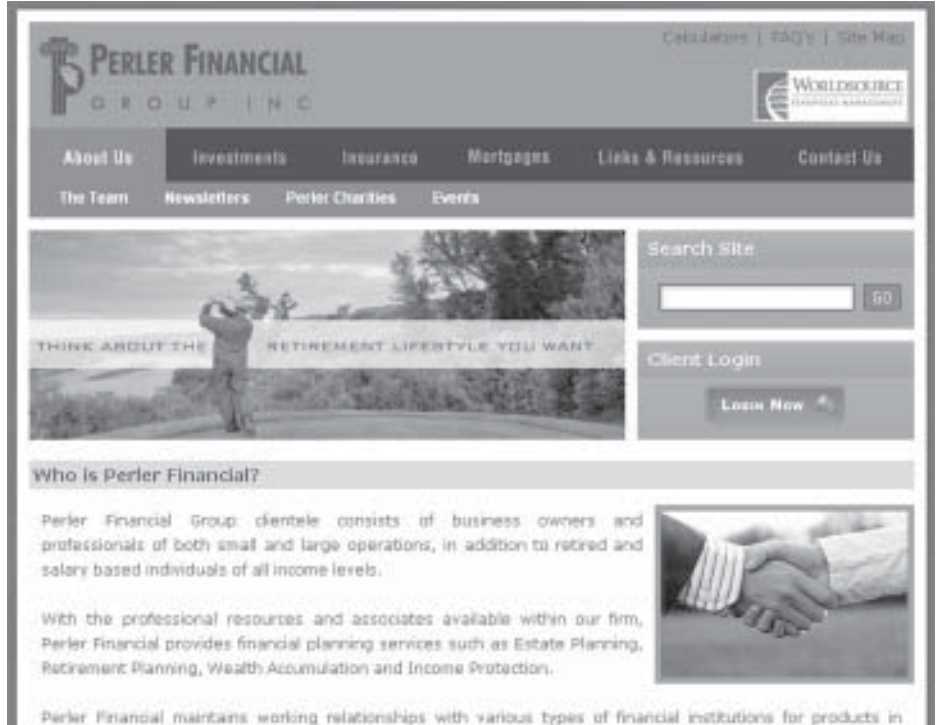
info@perlerfinancial.com

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Happy New Year!

*As we gain a fresh start on the
New Year, I look back on the past
year fondly and full of thanks for all
the wonderful new clients
I had a chance to meet.*

*A referral from you and your continued
business are the highest compliments we
could ever receive.*

*I thank you very much for your
confidence in me!
Harry Perler*

January 2007 Quarterly Draw Winner!

Congratulations to the winners of our
January 2007 Quarterly Draw,
Ron & Ursula McMyn!

Ron & Ursula are the lucky recipients
of a \$100 Gift Certificate to enjoy dinner at
the Gourment Hideaway in Maple Ridge

Our next draw is April 2007

Good luck!

No More Contribution Room?

The registered retirement savings plan (RRSP) is probably the single best tax shelter available to Canadians. You can deduct your contributions from your income and you are able to shelter your earnings from taxation for as long as they remain inside the plan.

But what do you do if you've filled it up and have no more contribution room? It's a problem. But what a nice problem to have!

While it's difficult to think of another savings vehicle quite as attractive as the RRSP, the good news is that there are other tax-advantaged savings options available to those who have already maxed-out.

Universal Life Insurance:

Universal life insurance is perhaps best described as a life insurance plan built around a tax-sheltered, savings account. Every month, the base insurance premium is "billed" to this savings account. Any amount that remains in the account after this minimum charge has been paid can be invested however you choose, and the earnings accumulate tax-free for as long as they remain inside the policy.

Labour Sponsored Investment Funds:

Labour-sponsored investment funds (LSIFs) offer tax credits to encourage Canadians to provide venture capital to smaller firms. Someone who makes the maximum annual investment of \$5,000 will receive a generous \$750 credit (15%) from the federal government. Depending on your place of residence, you could also receive another 15% credit from your provincial government, though Ontario recently announced plans to phase out its credit

Mortgage Debt:

Now that your RRSPs have been topped up, consider the benefits of making an additional mortgage payment. Most lenders will allow you to make prepayments to a maximum of 20% or 25% of the original loan, and the savings can be significant. For example, a \$10,000 prepayment on a \$150,000 mortgage at 5% with 20 years remaining would save you \$15,399 in interest. There aren't many other investments that can generate an immediate 150% after-tax return!

If you'd like to discuss these or other tax shelter opportunities in greater detail, please do not hesitate to contact me.

Reminder!

The deadline for making a contribution to your Registered Retirement Savings Plan (RRSP) is March 1, 2007. The RRSP contribution limit is 18% of your earned income in the previous year (2006) to a maximum of \$18,000.

Check your Notice of Assessment or Notice of Reassessment for the previous tax year for your deduction limit or check online using My Account on the CRA website:
www.cra-arc.gc.ca

New Strategic Alliance!

Perler Financial Group Inc. is pleased to announce a new Strategic Alliance with our firm! Effective December 18th, 2006, Becker & Company Law Offices has opened a new branch within our Offices.

Established in 1981, Becker & Company opened its doors in Maple Ridge. Over the past 22 years, the firm has gained the trust of the community and developed a well respected position within the community.

Becker & Company offers a wide variety of services from Wills and Estate Planning, Family Law to Real Estate Conveyancing, and Business and Commercial Law to Personal Injury Litigation. Becker & Company strives to protect your interests in every legal transaction and keep the scales balanced. Becker & Company offers a wide range of legal services for individuals and businesses in the Tri-Cities area.

Using your RRSP for Home Ownership

Although rates have risen in the past few years, they are still at historic lows. With the array of new programs and features being offered by many major lenders—such as 40 year amortization and Interest Only mortgages—owning a home is becoming a much easier achievement than ever before. One tried and true method to home ownership has been through the use of your Registered Retirement Savings Plan (RRSP) and the Home Buyers' Plan (HBP).

The Home Buyers' Plan enables a first-time home buyer to withdraw funds from his or her RRSP to purchase a qualifying home. You are considered a first-time home buyer if you are a Canadian resident and neither you nor your spouse owned a home as your principal place of residence during the period beginning four calendar years before the year of the withdrawal and ending 31 days prior to your withdrawal. However, the Home Buyer's Plan can also be used by a disabled person or individuals related to disabled persons who wish to buy either a more easily accessible home in which the disabled person would live, or to purchase a home that is better suited for the personal needs and care of the disabled person—they are considered exempt from this requirement.

The HBP allows you to withdraw up to \$20,000 in a calendar year from your RRSP to buy or build a qualifying home (a housing unit that is located in Canada, will be acquired or built before October 1 of the calendar year after the year of withdrawal and is intended to be occupied as the participants' principal place of residence no later than one year after it is acquired). You do not have to include eligible withdrawals in your income, and your RRSP issuer will not withhold tax on these amounts. You can withdraw a single amount or make a series of withdrawals throughout the same calendar year, provided the total of your withdrawals does not exceed \$20,000. If you are purchasing a home with another individual, you can each withdraw up to \$20,000.

Now as wonderful as it would be to be able to contribute to your plan, receive a tax credit, and then withdraw the funds tax-free to use towards the purchase of a home, you are required to pay yourself back over a 15 year period beginning the second calendar year after the withdrawal. Every year you must pay back a portion of the amount

borrowed from your RRSP starting with 1/15 of the outstanding balance in the first year. These repayments are not considered RRSP contributions and are not tax deductible. Your withdrawal will not be taxed provided the minimum payments are made. If you pay back less than the minimum, the difference will be included as taxable income for that year. Depending on your financial situation you may choose to payback more than your minimum requirement. By paying more you reduce your outstanding balance and lower annual repayments in subsequent years.

Like all financial decisions there are pro's and cons to using your HBP as down payment on a mortgage (i.e. your monthly mortgage payments may be smaller, however the redeemed funds will not have the benefit of investment growth). Please be sure to speak with your financial advisor and/or mortgage professional who will be able to find the right path for you.

Mortgage Rate Update



Lavinra Joseph
Perler Financial Group Inc
Commonwealth Mortgage Corp

Direct 604.468.0815
E: ljoseph@perlerfinancial.com

Term	Closed	Open
6 Months	5.90%	8.35%
1 Year	4.99%	8.25%
2 Years	4.99%	
3 Years	5.14%	
4 Years	5.11%	
5 Years	4.99%	
7 Years	5.33%	
10 Years	5.50%	

Rates as of January 2, 2007
 Rates are subject to change at any time without notice.
 Please contact my office for current rates.
 Lender and/or broker fees may apply