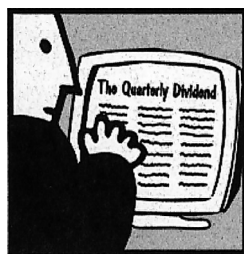


THE Quarterly Dividend

Vol. 29 No. 1

Your guide to income tax & financial planning

FAST TRACK



Year-End Investor Reports

Taxpayers who hold their investments in accounts maintained by the banks, trust companies or other financial institutions will soon be receiving their year-end statements summarizing how their portfolios performed in 2019.

These reports will

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A Vision for 2020!!

Although everyone of us play different roles each day of our lives, so much of our self-images are tied to what we do at work. That's not necessarily a bad thing, as the late George Burns used to say, the secret to success is to find out what you enjoy and then get someone else to pay for it. If you love being a "business man", professional, bureaucrat, teacher etc try your best to find a way to get into the job.

The other side of the coin, of course, is that if you don't enjoy what you're doing, you'll never be a success no matter how much you get paid. We spend so much of our lives at work, it is a shame when we find it tedious and boring.

Work is not the sole measure of a person. You need/want to strike a balance between work and home. You have to put work in its proper perspective. There is more to living than being workers, more to life than churning out our "work product". Above and beyond our work are the ideas by which we function and the human concerns that link each of us together.

Your work life intersects with your personal life and those of your family. You do not want to experience a disconnect by leaving your work persona at the office and assuming a new one when you get home.

You must learn not to separate "who you are" from "what you do". The ethical

values that guide your choices in life cannot be allowed to be "checked at the door" while you go ahead and make a living.

Our true identities come out through our commitments and priorities. Self-respect and a sense of self-worth are really only found through associations with others. Take the time to enhance relations with spouses, siblings, children, parents and friends. The more time together, the more opportunities you have to enrich both your life and those of others for whom you care.

You may have to be the one to "reach out" to others, take the first step and structure settings in which to share experiences. When successful, you will find real relationships to be more substantive than mere acquaintances.

When at work, perform honestly and with integrity. Stand for fairness and consideration. When you leave, act with thoughtfulness and compassion, forgiveness and understanding, love and sensitivity. But at all times, do it all with a sense of humour, because laughter helps place life in the proper perspective.



This year the "Dividend" will include one article per issue with the theme of Financial Literacy. This quarter's "Fin Lit" appears on page 2.

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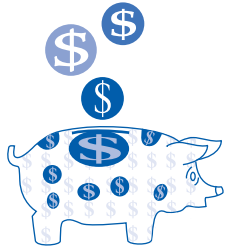
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Real Estate Terminology

Here is a list of common real estate terms that everybody seems to mention but may not really understand. They may come in handy the next time the subject of home ownership comes up and I am guessing that will probably be very soon.

(a) **closing:** this refers to when the property "officially" transfers from the seller to the buyer. This transaction is typically supervised by a lawyer who prepares a "statement of adjustments" recognizing the downpayment advanced by the purchaser in good faith, a recognition that certain expenses such as property taxes have to be split between the parties and a calculation of the final amount the buyer will need to present to the vendor to "close" the deal;

(b) **closing costs:** in addition to the actual cost of the property being transferred between the parties, there will be additional levies ranging from two to five percent of the "price" for such things as mortgage processing fees, title insurance and legal fees;

(c) **adjustable-rate and fixed rate mortgages:** very few home buyers are able to afford their purchase without requiring some financing from a bank or other financial institution. These loans usually run in five year blocks of time and "come due" every sixty months. An adjustable-rate mortgage is one where the interest rate can change over the term of the loan while a fixed rate mortgage is one where the rate is "locked in" throughout its entire term. In times of interest fluctuation, a home buyer may choose to try the adjustable-rate mortgage if he thinks that rates may go down and a fixed-rate mortgage if he believes they are likely to increase;

(d) **gross debt service ratio or "stress test":** the percentage of your gross monthly income that is needed to cover housing related costs such as your mortgage, property taxes and heating. Depending upon your situation, you will need a maximum GDSR of thirty-nine percent to qualify for a mortgage;

(e) **downpayment:** the rising cost of home ownership presents a prospective buyer with a dilemma. Home buyers must "put down" at least five percent of the purchase price on homes valued at \$500,000 or less, five percent of the first \$500,000 and ten percent of the next \$500,000 for those valued at less than \$1,000,000, and twenty percent for homes above that amount. A twenty percent downpayment allows the purchaser to avoid the four percent mortgage default insurance. But with the "average" price for homes in major Canadian metropolitan areas greater than \$500,000 the prospective purchaser must decide to get into the market with a downpayment of less than twenty percent or try and wait a little longer and hope that he will find the funds to deposit at least twenty percent of the price at closing;

(f) **debt to service ratio:** this compares your monthly household debt payments to your gross household income. Mortgage lenders consider this number when assessing how much money they are willing to lend you;

(g) **amortization:** mortgage payments typically consist of a "blended" amount of both principal and interest. There is an established schedule showing how much of each payment is allocated to each. The mortgage is said to be amortized over twenty-five years, meaning that monthly payment amounts are drawn up in such a way as the mortgage will be paid off at the prevailing interest rate over a twenty-five year horizon;

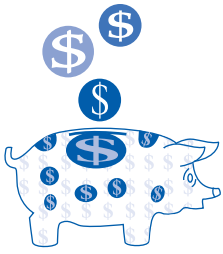
(h) **assessed value:** each municipality raises funds by setting a "mill rate" on the current market values of the properties in its jurisdiction. The public tax assessor makes the determination of the property valuations;

(i) **freehold ownership:** refers to permanent and absolute tenure of land or property providing full freedom of enjoyment (use and control of the land and the buildings thereon). It is subject to any rights of the Crown, local bylaws and other restrictions at the time of purchase; and

(j) **condominiums:** real estate that is

include a lot more information than simply the amount of interest income you have earned, the dividends that you have received and the capital gains and losses that you have realized over the past twelve months.

They will include: (a) the amount of fees you have paid your institution to manage your investments during the year. These amounts are termed "carrying costs" and are an allowable expense for income tax purposes; (b) the information that is required to be reported to the CRA regarding the amount of "foreign content" in your investment portfolio. If you held at least \$100,000 Can of foreign denominated investments at any time during the year, you are required to report this fact to the government. The annual report will



independently owned and sellable. The owners of the individual units also

collectively own and manage the common areas, amenities and utilities.



Getting Entrepreneurship Right

provide essential information regarding which countries' currencies your investments were being held, the largest amount held in that currency at any time during the year, the amount invested on December 31, 2019, the earnings generated from these investments, and the trading gains and losses you realized during the year; and (c) the amount of accrued interest foregone when your portfolio manager sold bonds that were being held in your portfolio before their maturity. These amounts also qualify as carrying costs.

Many investors will be surprised by the information gleaned from these reports. Although their advisors undoubtedly provided most of the same information on a quarterly basis

throughout the year, the earlier documents

Anyone who has ever thought about going into business has asked himself what he will need to do to be successful. While there are certainly no guarantees in life, he can give himself a fighting chance if he recognizes the following areas that will have to be addressed sooner rather than later. He will not be able to do everything himself. He will have to purchase goods and services along the way. As long as he can honestly recognize what things he can do and what areas he will need to bring in others, he will be able to concentrate on the big picture and enjoy the ride wherever it will take him and for how long it will last.

Here is what you need to get entrepreneurship right:

Macro - The Big Picture

(a) **capital:** there is an old adage that says you have to "spend money to make money". This is true, but you may not necessarily need a lot to get started. Start off slowly, take your idea and test it out, perhaps while you are still working at your "regular job" and see what happens. It will give you a chance to see what works and more importantly, what doesn't. It will allow you to learn while the stakes are relatively modest and you'll find out soon enough if you have what it takes to get to the next level;

(b) **patience:** you have to learn to walk before you can run. This is as true in business as it is in "real life". Once you get hit by the entrepreneurship bug, you want to jump right in with both feet. In most cases, that won't work. You won't be able to "hit the ground running". There are too many things to learn, to take care of and "figure out". Attend to these areas now, before you get too busy and don't have the time;

(c) **capacity:** one thing you will come to appreciate very early on is that no matter

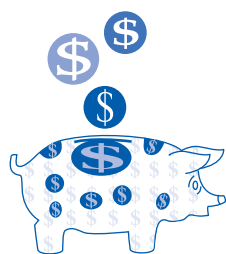
how competent you are, and how efficient you consider yourself to be, you cannot do everything yourself. You only have one pair of hands and there is only so much time you can spend on one task before you have to move on to the next one; and

(d) **luck:** whether it be good fortune or good timing, it never hurts to have a little luck to give you the feeling that you made the right decision to go into business. Just be humble when it is "there" and never take it for granted that it will continue indefinitely.

Micro - Doing the Right Things

(a) **get finance right:** how much money will you need to get this venture up and running; (b) **get your advisors right:** legal, banking, insurance, accounting, etc; (c) **get your people right:** assemble a "team" that can work well together who have "bought in" to your vision of where you want to go and how you want to get there; (d) **offer something compelling** to your customers; (e) **get technology right;** (f) **operate a company you can control**, reflecting your way of doing things while being open to advice and suggestions to how things might be improved; (g) **get your family "on side":** you will be putting in a lot of "overtime" so make sure they understand what you are trying to accomplish will benefit them as well; (h) **get your business location right:** start out modestly, maybe even in your basement or garage. You will know when it will be the right time to "leave home"; (i) **do some marketing:** build relationships with customers and suppliers. Not everyone will need your services today, but when they do, encourage them to consider you first before looking elsewhere; (j) **understand that you are in for the long run.** Enjoy your successes and learn from things that did not turn out as you had hoped.





focused on describing "how well" their portfolio had been performing during the previous reporting period. They typically concentrated on the overall yield of the investment mix they had assembled for their clients and downplayed any discussion of the income taxes that would arise at the end of the year.

Wise portfolio managers keep at least some percentage of the holdings in "cash and cash equivalents" knowing full well that many investors will need to draw upon these available funds to pay their taxes at the end of April.

Thanks for Your Referrals

We very much appreciate your referrals. If you know of someone who can benefit from the services we provide or who would like to receive our publication, please let us know. We will send them a copy with your compliments.

Here's an Interesting Question

We are all familiar with the GST/HST system in Canada where, in brief, consumption taxes collected by a company are offset by those that are paid and the net amount is remitted to the government.

What would you say about a system that is very much different to the way things are done in Canada?

In India, for example, the purchaser of a item is required to remit a certain percentage of each purchase, depending on the type of business, to the government.

If a company buys an item for the equivalent of \$100 Canadian, then say ten percent of the purchase price or \$10 Canadian is the tax. They receive \$100 worth of goods, \$90 is considered a "business expense" and \$10 is the tax. And get this, they will only pay their supplier \$90!!

This raises an important question for

Canadian companies doing business in India. How should they record their revenues and expenses on their "books" at home?

There appear to be three alternatives. In the above scenario, they could (a) record the revenue as \$100 but recognize that they will only collect \$90 from their customer. Does the \$10 difference qualify as a "foreign tax credit"? The answer is "probably not"; (b) record the revenue as \$90 because that is the amount they will ultimately collect from the customer? This seems to be a reasonable solution, except that revenues are really \$100 and not \$90; and (c) record the revenue as \$100 and offset it with a "business expense" (not a bad debt!!) of \$10 to reflect the reality that the company will only realize \$90 on the sale.

I think (c) is the way to go!!



CRA Bingo (Personal)

B	I	N	G	O
EMPLOYMENT INCOME	UNION DUES	COMMISSION INCOME	AUTO/TRAVEL EXPENSES	DISABILITY TAX CREDIT
TUITION EXPENSES	CHAR DONS/ MED EXPENSES	RENTAL INCOME	PAYROLL TAXES	SELF-EMPLOYMENT
RRSP'S/RPP's	CAREGIVER TAX CREDIT	FREE	CHILDCARE	CAPITAL GAINS
NOTICE OF ASSESSMENT	INVESTMENT INCOME	FINAL RETURNS	FINAL RETURNS LEGAL FEES	TFSA'S
GST/HST	TAX ON SPLIT INCOME	ALLOWABLE BUS INVEST LOSS	SR&ED	CARRYING ON BUS CORPORATION

We all know how to play "traditional" bingo where the player uses a card with twenty-five boxes containing random numbers between one and seventy-five. A "caller" (or a machine) chooses numbers that are read aloud to participants to see if the number drawn appears on their cards. Winners are those who have cards where the selected numbers appear on cards in a straight or diagonal column stretching across all five rows.

CRA Bingo is where the participant/taxpayer holds a theoretical card outlining the various areas of his life that are open to scrutiny by the CRA. The "caller" is a CRA auditor who gets in touch with you to confirm that information they already have about you is substantially correct and verifiable. Winners are those whose numbers are not called by CRA representatives and have minimal contact with the Agency throughout the year.



The Quarterly Dividend highlights income tax and other financial matters in general terms. We recommend that no action be taken based solely on the basis of information contained in this letter. Specific professional advice should be obtained as individual circumstances must always be taken into account. This newsletter is copyright; its reproduction in whole or part by any means, without the written permission of the copyright holder, is forbidden.