

Tips to boost your wealth

Tax Help Plus

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As more and more baby boomers turn to the task at hand -- trying to increase their wealth, while not going to the poorhouse supporting their adult children -- some people turn to the tax system to see if there are any rules they can leverage to help build the nest egg. And it just so happens that there are some things that you might want to consider.

Basically there are two ways to increase wealth. The first is to improve investment yields. The challenge most people have -- Canadians by nature are risk-averse. They want to have guarantees, so that they don't lose what little they might have. The problem with this ends up in the nature of returns. The more security built into the investment, the lower the profit. As a result, there are even times that the growth is less than the cost of inflation.

When this happens, even though one has guarantees, the principal reduces because the true purchasing power of the money is being eroded. For instance, according to the Bank of Canada, in November 2007 the annual inflation rate based on the Consumer Price Index was 2.5 per cent. Based on its survey of the chartered banks at the time, a one year guaranteed investment certificate paid 2.88 per cent and a one year mortgage rate was 7.2 per cent. While one could take slim comfort in knowing that their principal was guaranteed, based on this information the real rate of return was less than half a per cent and the banks on average were charging others almost three times the amount to lend out your money while protecting themselves by securing it with a home!

So where should people invest? For many, consideration should be given to a diversified, stock-based mutual fund that is focused on paying dividends. The diversification spreads the risk and dividends end up with extremely favourable tax treatment. In fact, for those in the lowest and middle income tax brackets, dividends experience only marginal taxation. And you might have noticed, the markets have suffered over the past year and stocks in the banking community are down. Chances are good that they will continue to fall as more and more of the troubles of the U.S. economy spill over our border.

Astute investors like to buy things on sale. If you're normally paying a couple of bucks for a tube of toothpaste, and all of a sudden you can get three for \$3, you wouldn't hesitate! The same logic applies here. If your favourite bank is off 20 per cent, maybe you should be thinking about picking up a couple of shares since they're on sale. While chances are good that they might drop even more, who knows? Maybe it'll go down another 10 per cent.

On the other hand, maybe next January it'll be up 40 per cent. If it drops and you sell, you'll have an opportunity to apply the capital losses against

any other profits you might have. And if it ends up being a keeper, you'll be paying only a nominal amount of tax on the dividend.

But what if you don't have any spare change to invest? While we talked about the cost of borrowing above, everything is relative. Maybe now is the time to tap some of the equity in your home. A variable rate mortgage, which is the only way to go in my opinion these days, is a mere six per cent per annum. Meanwhile, our Bank Rate is 4.5 per cent. By the way, did I mention interest rates will continue to fall throughout 2008 in the States? Have you noticed that what happens there has a way of happening here as well? The probability is that our rate will fall in sync, and as a result so will mortgage rates.

So what other benefit is there to tapping the equity in your home to help kick start your savings? Simply that the tax rules allow someone to tax deduct the mortgage interest payment on any loan advanced to make an investment that is not into a Registered Retirement Savings Plan. Borrow \$50,000 on your home equity, tax deduct the \$3,000 in interest payments, maybe earn five per cent in dividend payments that you pay virtually no tax on -- and hopefully hold \$50,000 in shares that will double every five to 10 years. But whatever you do, make sure the funds are specific to the investment. The authorities don't want to try and figure out what part of the loan was really made to pay off the Christmas credit card bills.

On another note, it's that time of year again when people turn their attention to the annual task of filing a tax return. With an eye on getting as much back as possible, we're happy to once more offer our tax seminars for your lunch-and-learn or club at no charge. Right -- nada! These sessions run something less than an hour, depending on the length of the Q&A. Call the office if you'd like more information or would like to set something up.

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