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Planner

Tax and investment strategies:

ROLLING DOUGH INTO THE FUTURE

Antipasto Raviolini has had a good year, a very good year. In fact, at age 25, the first truly good year since leaving secondary school.

Antipasto works as a framing carpenter, and has been going full tilt boogey in Nanaimo. He's aware of the boom-and-bust nature of the industry, and would like to put away funds for the next bust — so that he can improve his education. He's looking to use the Registered Retirement Savings Lifelong Learning Plan. Then he can borrow from himself, from his own RRSP, and pay no tax, no penalties.

All the money he could pour into the plan now would be tax-deductible against 2005 income.

The problem is his minimal contribution room. At 18% of earned income, he'll have earned \$10,800 in new room, but won't be able to use it until

after he receives a tax return assessment authorizing such room. But this won't occur until May: A lot of beer bashes between now and then, a lot of opportunities to squander his savings.

WWW.JOHNQGREGG.COM/RRSP for everything you ever wanted to know about RRSPs. Includes easy calculators to test tax savings at varied levels of RRSP contributions.

ADVANCE CONTRIBUTION

Antipasto makes an advance contribution to his RRSP of \$2,000 more than his current allowable room. He recognizes that it grows tax-deferred, and that it will achieve some real growth. Whereas if he left it in a bank he'd suffer negative growth, earning less than inflation, and being fully taxed.

In 2007, he'll deduct the \$2,000 OC against 2006 income, using room created from 2005 earnings. This frees up the OC cushion, should he need it again.

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OVERCONTRIBUTION (OC) BASICS

The Canada Revenue Agency (CRA) charges a penalty of 1% monthly on RRSP contributions past the allowable room. But rules allow a penalty-free cushion up to \$2,000.

- \$ Everyone 18 or older as of January 1 is entitled to the OC cushion, earned income or not.
- \$ Overcontributions are made with after-tax dollars, no up-front tax deduction.
- \$ The cushion is inexhaustible. A flush investor prone to resource industry cycles can use it now, apply the OC as a tax deduction in some future year not as flush, then use it again when bulging.
- \$ CRA tracks the OC, and reports it annually as "unused RRSP contributions" on the T1 assessment sent tax-filers upon processing returns.

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OFFSPRING JUMPSTART

Protopasto Spaghettiini has also had a good year, and has three granddaughters with whom he'd like to share his wealth. He wants to give them cash, in a way that will stick. By dumb luck, fortunate for this article, they're triplets who turned 18 on Boxing Day — making them eligible for the OC limit. He sets up each with a \$2,000 RRSP.

The girls can carry the deduction forward forever into the future, to use it when needed to defray income tax against their first real jobs. Meanwhile, grandpa's gift continues to grow tax-deferred, for future use under the Lifelong Learning Plan, or perhaps as a downpayment under the RRSP Homebuyers' Plan.

LAST PLUS ONE

Neutropasto KD turns 69 this year, making it the last in which he can make RRSP contributions before converting his plan to a RRIF (Registered Retirement Income Fund). But he still generates earned income, creating contribution room.

If a married guy with a younger spouse, he could continue making contributions to a spousal plan in her name until she turns 69. But he's single.

He maxes out his RRSP contribution room, plus the \$2,000 OC. He'll use the \$2,000 as tax deduction in the following year.

Though he can make no further RRSP contributions, he's still allowed the tax deduction from the previous

year's OC. And he did sneak a final \$2,000 into tax-deferred retirement income.

Thanks to Bruce Cohen for the concepts.

Survey results:

AND THE WINNER IS. . . .

The last issue of this newsletter for 2005 was accompanied by a version from Great West Life, entitled *Securing your future*. The first one hundred on the mailing list were also sent a request to complete a short survey. To encourage response, they were asked to vote for their favourite charity, the winning charity to be sent a donation.

Of responses received,

- 73% preferred this *Planner*
- 19% liked both newsletters
- 0% preferred *Securing your future*
- 8% saw no value in either, and asked off the list

Among issues respondents would like to see explored in future issues:

- Reverse mortgages
- Saving tax by gifting an estate
- Health care costs and alternatives
- Family corporation planning
- Financial safety net for the already retired

Seventeen different charities were mentioned, [THE SALVATION ARMY](#) a clear winner.

Thanks to all those to participated.

Thanks to all those who introduced friends and family throughout the past year. Such referrals are the highest compliment and greatest responsibility.



They are never taken lightly.

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