



Volume 8, Issue 1

New Year, 2004

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Planner



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

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Tax & Investment Strategies:

DISHING UP REFUND RAGOUT

The whole concept causes Heddy Lamamour to cringe in disgust.

That her colleagues fritter away lunch hours drooling over toys or trips they'll buy from their income tax refunds makes her gag on the cream-of-mushroom. "It's not government largess!" she wants to hurl. "Not manna from heaven!"

It's your own money. Which you've been allowing government to use. Interest free.

Every January Heddy adds a lump sum to her RRSP, and every March she agonizes over what to do with the refund it generates: fly to Baja and back, pay down the mortgage, roll it into a kid's account, bury it in the back yard?

She'll poll her siblings.

The Lamamour eight are all employees, all earning between \$32,000 and \$64,000. Each contributes \$5,000 to an RRSP, each meriting a tax refund of \$1557. And each has just shouldered similar mortgages: \$60,000 amortized over 25 years, costing 5.5%. Total payments will tally \$109,870.

1. ENHANCE CASH FLOW

Brother Philtrum rid the refund by leaning on his employer's payroll department. He used Revenue Canada form T1213 [see box on page 2] to request that less tax be withheld at source. In compensation for his regular monthly RRSP contributions, \$125 less tax is withheld from each paycheque, making \$125 more cash for family fun.

2. HAMMER DOWN THE MORTGAGE

Allowed one prepayment annually, Brother Naris shoots his refund smack at the mortgage. At \$1557 each year, he'll knock ten years off its 25 year schedule — and save \$20,500 overall.

Naris boasts two further advantages to his strategy. First, reducing the payment schedule reduces the chance of being snared by future increases in mortgage rates. Second, by removing the mortgage early, it puts him into a stronger position to play RRSP "catch-up" (A common financial activity reserved for the days when the mortgage is gone, kids too.)

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	VALUES AFTER TEN YEARS		
\$1557 Refund	RRSP @ 8%	RESP @ 8%	Mortgage
Spend Refund	\$72,433		\$45,003
Reinvest Refund	\$94,988		same
Gross up refund	\$105,291		same
Fund RESP	\$72,433	\$27,067	same
Prepay mortgage	\$72,433		\$24,794

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3. GROSS IT UP!

Sister Chique would like to contribute more to her RRSP than the \$5,000 saved. But not at the cost of shouldering further debt. Fiddling with the math, she discovers that contributing \$7262 generates a \$2262 refund. Aha! Research turns up a lender willing to provide \$2262 at prime – with 90 days deferment before the first payment, and no penalties for prepayment.

She invests \$7262. She pays off the entire loan from her refund. Her cost of borrowing is \$19.80.

As shown in the chart, over ten years this practice improves her net worth by nearly \$33,000. At a borrowing cost of less than \$20 each year.

4. REINVEST

Brother Dorsum flips his

refund back into his RRSP, upping his annual contribution to \$6557.

At the end of ten years, this puts him \$22,000 ahead of spending the refund.

Canada Customs and Revenue Agency (CCRA, formerly Revenue Canada) allows reduction in employee withholdings at source for various reasons, including:

- \$ RRRSP regular contributions
- \$ Deductible alimony/child support payments
- \$ Child care expenses
- \$ Charitable donations

To apply for a reduction in withholdings, complete CCRA Form T1213, Request to reduce Tax Deductions at Source, attach supporting documentation, and fire it off. The form is available at www.ccr-a-adrc.gc.ca or by calling 1-800-959-2221.

5. REINVEST THE REINVESTMENT

Sister Ala takes this strategy one complicated step further. She invests the additional refund generated by contributing the previous refund.

In year two, then, she'll earn a tax refund of \$1557 for her usual \$5,000 contribution plus an additional \$485 from her previous \$1557

reinvestment. So she'll now contribute an additional \$2042 to her RRSP – generating a further refund of \$636 for year three. Eventually, in year six, this process maxes out, so that Ala is annually rolling over \$2262 – the same as sister Chique through her 90 day loans.

6. FUND THE FUTURE

With her \$1557 income tax refund, sister Temple opened a Registered Education Savings Plan for her children. Six weeks

later, her RESP was rewarded a \$311.40 Canadian Education Savings Grant. Every year she contributes a refund, her plan will receive the grant. An immediate 20% return.

7. HAVE FUN, BE HAPPY

And then there's brother Lippy, the family grasshopper. His sisters assume his refund is going skiing. But he's taking it to the food bank.