

MONEYWISE

A Quarterly Publication by Seville Mortgage Corporation www.yourmortgage.ca

Welcome to MONEYWISE

Everyone knows that when you have a mortgage, you will pay a ton of interest, but realistically a mortgage is the only way most of us can buy a home. However, we do not have to drag it out any longer than necessary.

In fact there are many ways to pay off your mortgage in the shortest possible time. To motivate us to take the steps necessary to accomplish this goal, we need to recognize the cost involved if you do not take advantage of your **accelerator options**.



These **accelerator options** differ from lender to lender, but most mortgages will offer the privilege of making bi-weekly accelerated payments, increasing monthly payments as well as annual pre-payments. Let's look at an example using a \$150,000.00 mortgage at 7% interest with a 25 year amortization and a monthly payment of \$1050.62. If you make monthly payments for the full 25 years your total

interest cost is \$165,188.93, so in fact you have paid a total of \$315,188.93. If you make bi-weekly accelerated payments of \$525.31 and make a prepayment of \$1200.00 per year your mortgage will be paid in full in just 17.5 years. The total interest cost is only \$108,102.09 which is a saving of \$57,086.84. Now let's take that payment of \$1050.62 for the balance of the 7.5 years and invest it in an RRSP with a return of 7% per annum. At the end of the 25 years not only will you be mortgage free, you will have an additional \$124,000.00 in your RRSP investment to put towards your retirement. The double bonus here is the tax savings you will receive from the \$12,000.00 annual contribution to your RRSP.

Mind boggling isn't it? This is the wonder of the compounding effect of interest. When asked what was the most powerful thing he had ever witnessed, Albert Einstein responded simply, "compound interest". This scenario certainly illustrates the hallmark of his genius.

Here's a deal you can't refuse. Email, fax or call me your mortgage balance, Interest rate, monthly payment (principle and interest only) and the extra amount you want to prepay each year. I will run your numbers and let you know how much interest and time you can save.

Donna Telep *President & CEO*
Seville Mortgage Corporation



Teaching Our Children the Value of Saving/Investing

their attaining any goal in life. It will enable them to provide themselves and their children with security and comfort, even in the face of dwindling jobs and Social safety nets.

Here are some tips for you to start your children on the right path:

Rather than put money aside for them, build an extra amount into their allowance and emphasize the importance of saving for themselves. Give them the responsibility and you will be amazed at how they live up to it (with your guidance, of course!).

Have them write a financial plan – a budget of what they need to spend, what they need saved at the end of the year and for what purposes, including items they would like to purchase through the year. Break it into a weekly budget as smaller numbers are easier to understand.

Teach them that the greater reward is not spending cash on a new toy or clothing that they will outgrow, but a higher amount saved. This might be a challenging concept for children used to instant gratification and consumerism!

Everything we do in life today depends on money. Money – or more specifically, the lack of it – is the major cause of divorce and blamed for a vast majority of crime. Sadly, what most people don't realize is that financial security and wealth are dependent not upon what you earn, but what you do with what you earn.

When discussing the process of investing, a comment many financial planners, brokers and columnists hear daily is, "I wish I'd known this sooner." Well, it's never too late to learn, and neither is it ever too soon to teach your children and your grandchildren.

There is no secret to wealth building. Start investing at an early age and stay with it. Investing regularly over a long period of time can result in substantial wealth.

Instilling children with the knowledge of what and how to save to achieve their personal financial goals is paramount to

Continued...

Teaching Our Children...

Money doubles in value every seven years if earning just 10%. Apply this formula to investments with compounding effects of dividend reinvestment and continued regular deposits over several years, and the children will very quickly catch on to how and why they should save and invest.

Teaching children the value of saving and investing, working with them in following their investments, and discussing interest rate movements helps them grasp the mathematical applications they are learning in school much faster than children who cannot apply these to everyday life.

Just \$5.50 saved each day is \$2,000 a year. That is the minimum you should focus on for your RRSP deposits each year. For a young child, a more realistic amount might be \$5 per

week that can be saved from allowances and odd jobs. A teenager, depending on his or her goals, might look at saving \$20 per week from allowances and regular jobs, such as baby-sitting, lawn-mowing, car washing, paper route etc., giving her a year-end balance of just over \$1,000. Suggest that rather than blowing this cash booty at the end of the year, they invest at least half in some stocks.

Monitor with them the products and services that you buy as a family and in business -- this is the first clue as to the companies they should investigate at the outset. Only invest in what you know. Never act on a hot stock tip no matter how good it sounds, if you do not know anything about the company, its management or its products and track record, etc. Household brand names, profitable local utilities and the manufacturers of things you own

are the companies that you already know and trust. Begin your investment investigations here.

Investing is fun. The sense of ownership children develop when they buy stocks is wonderful to see. Doing it for themselves creates self-esteem and confidence, and a sense of personal responsibility that is visibly lacking around us today.

When they know they have a choice to make, they will choose wealth over poverty every time. Even children from extremely poor backgrounds can make the move out of this cycle by learning to save and invest for their future.

Match their efforts. To encourage children to save, make a commitment to match their deposits. For every \$100 saved, offer them

\$100 more, provided the only withdrawals they make are in accordance with their goals.

Investing is not rocket science; it is common sense. You don't need a degree, or any education for that matter to build wealth, and you certainly do not need to have a large sum of money to start. You need to invest regularly over a period of time in companies that you know, taking advantage of dividend and interest reinvestment programs. Time is the greatest asset children have. It is the one asset they have more of than we. It is the essential ingredient to long-term asset growth and wealth. Get them started now!



Selling/Purchasing Real Estate

D. Sharon Manthey
Notary Public
Practicing in Maple Ridge since 1975

Selling/purchasing real estate?

After you sign the Contract to buy or sell your home the question arises,

Now what do I do?

Contact a Conveyancer (Notary or Solicitor) and obtain a "quote". Each transaction differs somewhat so the quote will vary. Fees (Notary/Solicitor charges) and disbursements are payable. Disbursements are the expenses paid on your behalf to obtain necessary information regarding the property and to register the documents in the Land Title Office. Legal fees are subject to PST and GST. GST also applies to some disbursements. Once you have decided which Notary/Solicitor you wish to use, they will prepare your final documents.

Selling:

When "selling" your home, the Conveyancer will review the documents prepared by the Purchasers representative with you and have you sign where required. If you have a Mortgage, the necessary steps will be taken to remove it from the Title. If selling through a realtor, commission plus GST is payable.

Purchasing:

The Conveyancer will require personal information to prepare documents (i.e. full names, address, occupation).

If two or more are going on the Title it must be determined if the Ownership will be "Joint Tenants" or "Tenants in Common". The effect of this on title is important and must be discussed. Frequently a married couple will be "Joint Tenants".

The Conveyancer will conduct a Title search. Should this indicate Right of Ways or Covenants, I recommend you have them obtain a copy of the documents. These can have considerable effect on

you and your use of the property. When you are making such a large investment you need all available information. The cost is approx. \$15.00 per document and can be a wise investment. When documents have been prepared, you review and sign them at the Conveyancer's office.

When purchasing a house with no mortgage, the transaction has less costs.

One major expense you need to be prepared for is Property Transfer Tax. It is 1% of the purchase price to \$200,000.00 and 2% on the portion over. For example, if you purchase a house for \$210,000.00 the tax will be \$2,200.00. Not a small amount when budgeting. If you have NEVER owned a principal residence you may be exempt and will need to discuss the qualifications with the Conveyancer.

Other Common Expenses which may arise are:

Mortgage company may require any of the following:

Site Survey; Appraisal; Brokers fees; Interest adjustment; Property Tax holdback.

Adjustments:

These are items such as property taxes and/or utilities. If it is a condominium: maintenance fees; Strata corporation fee for Land Office forms; Move-in or Move-Out fees may apply.

As you can see costs vary considerably, therefore ask as many questions as you feel may apply to your situation.

AMENDMENT

The second to last sentence in the second paragraph of my previous Article re Power of Attorney - should have read as follows:

A Solicitor and the Public Trustee become involved. If no one is suitable in the eyes of the Courts, or no one is willing to make the Application, the Public Trustee for the Province becomes the party that will look after the affairs of the incapable person. It is costly and often stressful for the spouse and/or family member(s).



Planned Giving With Insurance

Bob Thompson
RBC Dominion Securities Investment Advisor

Some people make it their policy to give to charity. But did you know that you can give to charity through a life insurance policy? Well, you can. With life insurance, you can give to your favorite charity, even after you're gone.

The advantages of using this approach include: affordability, tax benefits and having your wishes guaranteed.

"I'd like to give to charity, but I just can't afford it."

With life insurance, maybe you can. Because of the long-term nature of life insurance, even small amounts add up. That means you can make a substantial gift to the charity (or charities) of your choice without adding a major financial burden.

"I want to give to charity, but I don't want to reduce my legacy to the beneficiaries of my estate."

With wealth replacement insurance, you don't have to. You can purchase a life insurance policy with a face value equal to the amount you plan to give to charity, then name your heirs as beneficiaries. When your heirs receive the tax-free proceeds from the policy, it will replace the amount that you donated to charity.

"Is there a way I can give an immediate gift to my favorite charity, and enhance my current level of income?"

By creating a charitable annuity, you can give to charity and receive a guaranteed tax-free income each year, without having to worry about managing your own investments. How this works is you give to a charity and, under a deed of agreement, the charity is authorized to buy an annuity from an insurance company to provide you with set payments. In a typical case, the charity would retain 25-30 per cent of the donation and use the rest to buy the annuity. Since the charity is the owner of the contract, you, the donor, receive tax-free income.

However, you should carefully consider your options before deciding to establish a charitable annuity, as it is irrevocable. It is a good idea is to consult with a qualified professional who can explain all of your options to you.

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YOUR TAXES

Jim Maroney

I've heard it said that, in Canada, over the next twenty years, a trillion dollars of wealth is expected to transfer from one generation to the next. Whether this number is a trillion dollars or one hundred billion dollars doesn't really matter much – the point to be made, is that there is a substantial amount of wealth set to transfer hands over the next generation.

With numbers of this magnitude, it's no wonder that estate planning is becoming a big issue in the minds of Canadians.

One estate planning approach that frequently crops up is a simple transfer of an asset into joint ownership with right of survivorship. The idea here is that property so held will transfer to the survivor by operation of law and not through the deceased's Will. In this way, the property never forms part of the deceased's estate and probate fees are thereby avoided.

This approach is frequently adopted by the do-it-yourself crowd because it is simple to understand and easy to do. Unfortunately, the income tax consequences of such transfers are rarely considered and these consequences can be significant.

The Income Tax Act contains a

number of sections that deal with the tax treatment of assets transferred between non-arm's length parties. One of these sections basically states that where you transfer an asset to a non-arm's length party (your child, for example) you are "deemed" to have received proceeds equal to the fair market value of the asset transferred. It doesn't matter whether you gift the asset or sell it for less than it is worth, the tax consequence is the same – you are deemed to have received proceeds equal to fair market value.

For example, assume that you were the owner of a bare piece of land worth \$200,000 today.

You purchased this land a number of years ago for \$40,000. You're getting on in age and your friends have been giving all kinds of advice on how to avoid the "taxman" and those pesky probate fees. In fact, you've been told that transferring this land to your children could save probate fees of up to \$2,800.

Wow!

Acting on their words of wisdom, you decide to transfer the property into joint ownership with your three adult children. The transfer is exempt from property transfer tax and everything is fine and dandy. But is it?



From an income tax perspective, you will be considered to have sold 75% of your interest in this land for fair market value. Your deemed proceeds will be equal to \$150,000 being 75% of the property's fair market value. The capital gain that you have to report on your income tax

return in that year will be \$120,000 which is equal to \$150,000 less \$30,000 (75% of the \$40,000 original cost). At the top marginal tax rate, the income tax bill triggered by this seemingly innocuous transaction would be in the neighbourhood of \$48,000. No doubt, not quite what you expected.

In future, you and your three children will each have to report

25% of any income or capital gains from the property. Upon your death, you will be deemed to have sold your remaining 25% interest in the property.

So what would happen in the above example if you transferred an interest in the property to your spouse rather than your adult children? From an income tax perspective there would be no income tax consequence at the time of transfer since capital property can be transferred between spouses at tax cost. But be warned, when this property is ultimately sold the entire capital gain belongs to you and is not shared with your spouse.

The critical point to understand is that while transferring an asset into joint ownership with a spouse or child may be simple in concept, it is fraught with difficulty. There are numerous factors, both tax and non-tax, that must be considered. This is not your typical do-it-yourself project and professional advice is highly recommended.

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Chartered Accountants



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