Money Matters

Five years later, Canadians are starting to shake off the shock of 2008 and 2009 and find a sense of optimism in the economy and longer-term financial planning

BY HEATHER RAMSAY

Policies, rules, regulations, laws, limits, deadlines, submissions and reporting requirements – apply that to finances and investments, and you have a conundrum that daunts most Canadians. Financial planning has long been the ethereal ‘freedom’ that so many think about, know they should do and yet struggle to get on track let alone leverage fully.

Albeit global markets have been unsettled, there is a sense of increasing optimism about the state of affairs here at home. According to Investors Group, there was an increase in consumer confidence towards the end of 2013. The index was up for a second consecutive year and feelings relating to shorter-term activities are positive. The increase in confidence is encouraging and appears to be spreading.

In a report released by Investors Group in December 2013, there is yet mixed feedback regarding the status of financial stability of individuals. One in five reported being in a better financial situation than they were a year prior, and 18 per cent stated their situation had become worse. The ripple of positive consumer confidence was visible as nearly one third of Canadians felt they would be in a better financial situation in a year’s time, and Prairie residents were most optimistic of all when looking ahead to the next five years.

Experts in the financial world have long since encouraged others to make concerted efforts to plan their financial future to avoid hardship and be prepared to pending stages of life. Perry Diebert, wealth management consultant with Wealthco Asset Management in Calgary, reinforces that it’s never too late to start investing or modify a personal financial plan.

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long commitment. We are seeing more clients who are looking for variety in their investments as well as reasonable returns. Diversification in a portfolio is critical if you are looking for 10 to 15 per cent return at any one time."

Given that as Canadians we spend on average 124 per cent of what we make, it has become harder and harder for many to make investment contributions. By default most people turn to RRSPs, stocks and bonds, however, with a variety of products available such as tax-free savings accounts (TFSAs) Canadians have increased options when planning their future financial freedom.

Kim Moody, director, Canadian tax advisory with Moodys Gartner Tax Law, explains that overall 2013 was a busy year tax wise and that the pace will likely increase as greater confidence is gained in various markets. Their firm specializes in Canadian and American tax law and offers advisory services from their offices in Calgary, Edmonton, Vancouver and New York state.

The new federal budget brought in a variety of changes and tightening of what many consider to be tax loopholes. "There has been considerable push for greater transparency in international investments and related taxation, to further discourage tax evasion. An important change of note is that the government has expanded T1135 to include rigorous requirements for complete reporting of international investments. These extensive efforts come with substantial implications if reporting is done incorrectly," says Moody. "With any investment, no matter what it is or where it is, investors must be diligent in research, understanding and tracking. Tax and finance are incredibly complex fields of practice and there are inherent risks and consequences for anyone who goes into it haphazardly."

There are a multitude of considerations to be made when building a personal financial plan including taxation. According to Canadian Tax Law, as long as you follow the rules it is perfectly acceptable to order financial affairs such that you pay as little tax as possible. "There are a number of different ways that you can reduce tax burden, and organizing, reporting and filing correctly are critical," says Moody.

In addition to RRSPs, stocks and bonds, more Canadians are incorporating products such as TFSA, RSPs, equities and real estate into their portfolio. "RRSPs have long stood the test of time and are an important component of tax and investment planning. TFSA are also another great place to invest. With the recent limit increase to $5,500, it is a clever way to save and can serve as a very helpful tool for entrepreneurs who are looking to reinvest in their business," explains Moody.

TFSA were first introduced in 2009 as a new way for Canadians to build assets. The initial annual contribution limit was $5,000 and individuals can have more than one TFSA as long as the contributions don’t exceed the limit. Similar to RRSPs, one can carry forward unused contributions if the limit is not reached in any one year.

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When dealing with matters related to financial planning and estate planning, experts offer insight into the following important considerations.

- Don’t wait too long to start investing. It’s never too late and you can expand and improve your financial plan as you go.
- Don’t let your emotions drive your decisions.
- Avoid getting ‘advice’ from friends or Google. Friends and family likely mean well, but everyone has different financial needs, expectations and thresholds.
- Complete due diligence. Do the legwork and research options and markets thoroughly. Be sure to read the fine print and seek expertise to ensure you don’t get yourself into trouble. It is far better to be in the know and proactive about your future financial security.
- Be cautious about charitable tax shelters. These schemes do still exist and require extensive expertise to navigate.
- Don’t lose focus and confidence when markets drop.
- Seek professional advice. Don’t assume you know financial planning and tax. Find someone you know and trust, and get along with personally. Ensure your adviser is qualified and someone who you know has your best interests in mind.

Looking ahead, industry experts in finance and tax anticipate that markets and activity will continue to slowly improve. “More traditional products such as RRSPs, RESPs, stocks and bonds will continue to be cornerstones in investment portfolios and products such as TFSAs and hedge funds will gradually increase in popularity,” says Diebert. “There is always new energy and momentum in a new year and forecasts are encouraging for 2014.”