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RRSPs deserve respect

by *Kristen Enevold*



Thinking of breaking into your RRSP savings in an emergency?

Think again, says Kelley Keehn (left), personal financial coach and the Alberta author of *Mutual Fundamentals II*, released last month.

"An RRSP is fully taxed when withdrawn and should never be thought of as an emergency account," she says.

"Investors are wise to consider a non-sheltered account before allocating their entire savings within a tax shelter such as an RRSP."

Now is the ideal time for many to invest in RRSPs, says Keehn, noting those between the age of 30 and 50 are in a relatively higher pay point in their careers.

"It's a good idea to save monthly and do so in manageable chunks," she says.

Other points to consider:

- What's my income this year?

In addition to the tax-deferred growth an RRSP provides, you can also benefit from the tax deduction produced by this shelter, which is based on your marginal tax bracket. But if you've had a relatively low-earning year, you may wish to defer your contribution until you're earning more money. The room for contribution can be carried forward.

- Should I pay off my mortgage or invest in an RRSP?

Many financial planners will say consider both. Paying off the mortgage is the financial priority for many Canadians, but this strategy could force you into an asset-rich, cash-poor retirement. Instead, consider an annual strategy of investing in an RRSP account, then using the tax refund to pay down the mortgage.

- What do gender and marital status have to do with RRSPs?

They're something to consider. With the divorce rate around 50%, there's a good chance a single mother living on her own, for example, might need to



dip into her tax shelter. It's essential to consult your tax or financial adviser to determine what factors are involved in designing a portfolio and planning for a retirement that suits your unique situation.

Dollars & Sense

with *Lesley Scorgie*

Lesley Scorgie is only 22, but already well on her way to millionaire status, thanks to saving and investing her money since age 10. We can all learn from her financial savvy. This month, she shares advice for tax season.

In spring we clean, catch up and look forward to a beautiful season to come - and to approach the delightful personal tax season. If you're like most Canadians, you face either owing money or getting a return. Rarely when people calculate their taxes is there nothing to pay and nothing to collect. Either scenario changes the amount of cash flowing through your bank account.

IF YOU GET A RETURN:

- **SAVE SOME OF IT!**

You may not have the pleasure of a return in years to come and it is important to tuck some away. Here's a pretty standard policy with most financial situations: When times are good, save, because when times get bad, you'll need to spend in order to keep yourself afloat.

- **INVEST A PORTION INTO A RRSP**

A Registered Retirement Savings Plan is a tax-sheltered investment account. Within the account, you can choose the types of investment vehicles you wish to use. For example, you can invest in mutual funds, stocks and bonds under the same roof. An RRSP provides shelter from taxes you would normally pay on the whole portion of your salary. By investing up to 18% of your income, you will be taxed less for the current year. Use your 2005 tax return in your 2006 RRSP contribution and you will save money and possibly receive another return upon your 2006 tax filings.

IF YOU OWE:

- **SAVE IN ADVANCE**

Many people cannot afford to pay their taxes owing. If you suspect you will owe money to the government, set up an automatic savings plan in advance.

Either have an amount taken off your pay by your company's human resources department, or do it yourself. Open up a savings account that can't be accessed with your bank card, then have contributions made automatically to the account. Ask your personal banker for help, or do it yourself online.

- **LEARN LEVERAGE**

If you are totally caught off guard and cannot pay your taxes, learn to leverage. Before you shop around for a low-interest loan, find out exactly

what interest penalties are associated with being late on your tax return. Then try to find a loan with an interest rate lower than the penalties. Take advantage of the lowest interest rate loan you find, pay the tax collector, and start making bi-weekly payments on your borrowed money.

Bi-weekly payments allow you to pay your debts faster than monthly payments.

I'm a huge fan of credit lines because, typically, they have lower interest rates than loans.

Whatever you do, don't skirt the tax collector or you'll end up with massive penalties and maybe jail time.

- FILE YOURSELF

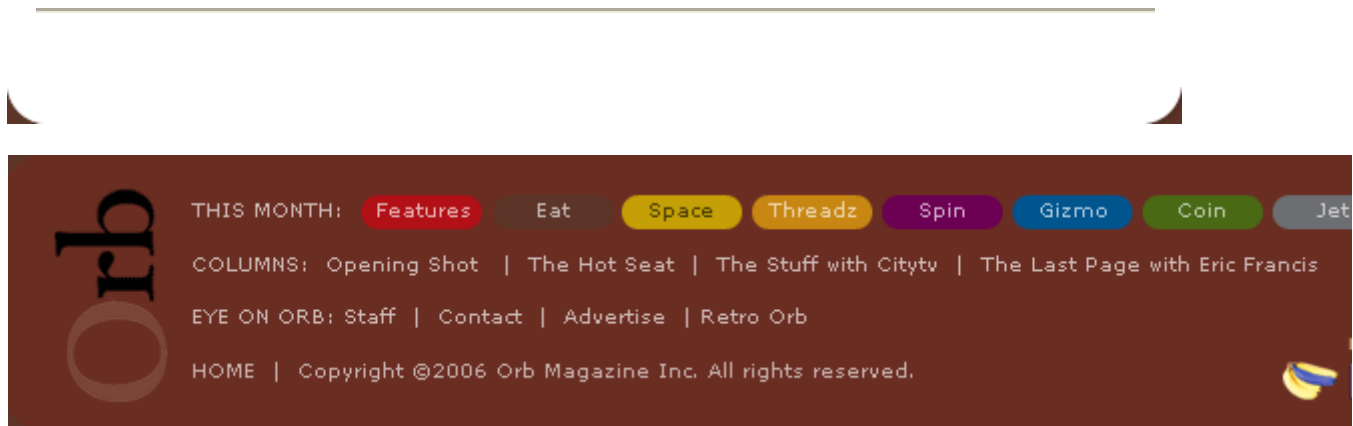
If you are good with numbers, you can try filing your taxes by yourself. You could even make a small business out of it by filing for other people you know.

- OR SEEK HELP

If you aren't comfortable with filing your own taxes, there are plenty of competitively priced tax agencies around Calgary. Take advantage of one that is low in cost and does a good job.

If you need tax advice, you might want to seek out the assistance of a reputable accountant. If you own a small business, use your accountant's skills to reduce the income kept in the business so you have less tax to pay on that income at the end of the year.

For example, you can write things off and drive up your expenses for various tax benefits. I suggest engaging an accountant when you undergo such initiatives. They can offer specific advice for small businesses that benefit both you personally and your business.



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