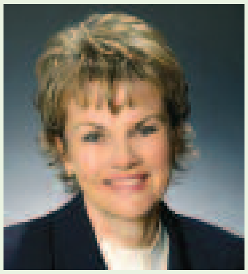
B L Garbens Associates Inc.
Independent Financial Advice
Professional • Personal • Proactive

inBrief financial information you can use
Summer 2006

CONTENTS

President's Message



Sometimes, the biggest decision I like to make in the summer is what to BBQ for dinner, although in this issue we're talking about buying houses and cars – two of the biggest consumer decisions around. Why now? Summer can be an ideal time to take a leisurely overview of upcoming plans. I often find the perspective a little 'chill out' time brings can help us to make better choices. I hope this issue helps you consider some new ideas as you chill out around a hot BBQ this season. All the best,

Barb

Barbara L. Garbens
MBA, RFP, CFP

To Lease or To Buy?

That is the question we're all faced with when it's time for a new car. There's no one right answer that fits everyone, but here are some things to keep in mind.

The Advantages of Leasing

For those who don't have the cash to buy a car outright, and want to keep their monthly payments low, leasing may be the answer. But don't be fooled into thinking that smaller monthly payments translate into a lower cost overall – usually the reverse is true. With a lease, your payments are based on the original price of the vehicle minus the residual value at the end of the lease period. With a car loan, the whole cost of the car is amortized over the lease period, giving rise to higher payments. But at the end of the term of the loan, you own the vehicle. Not so with a lease.

Leasing is also appropriate for those who like to get a new vehicle every two to three years to take advantage of new technology and safety features as soon as possible. It can also reduce the stress of car ownership, since the vehicle is usually covered by warranty for the duration of the lease, and there are no worries about selling the car when you're ready for a new one.

Where Buying Is the Best Solution

If you're the type of driver who buys a quality vehicle, takes good care of it, and expects to keep it for eight to ten years, buying is generally a less expensive option than leasing. New cars depreciate most rapidly over their first two or three years. The longer you keep the car, the less you pay per kilometre by amortizing the depreciation over a longer period.

Buying is also a better solution for those who don't like the potential restrictions of a lease. For example, a lease usually imposes limits on the number of kilometres you drive, and may restrict you to driving within Canada. If you drive the car further than you planned, you may be facing extra charges at the end of the lease. Problems can also occur if you have to cancel the contract before it expires – for example, if the car is stolen or declared a total loss after an accident.

If you have the cash available, it generally makes sense to use it for the purchase rather than taking out a loan, as long as this doesn't leave you short of funds to pay down credit cards or contribute to your RRSP. But sometimes, it makes sense to borrow. Today, some manufacturers offer heavily subsidized finance rates (0.9%) to boost the sales of some models. If your own money would earn more income after tax than you'd pay in interest on the loan, then borrowing is the smart thing to do.

Tips for First Time Home Buyers

While most readers of this newsletter may be well past the purchase of their first home, you may have younger members of the family who are ready to take the plunge. Home ownership is a major step towards the goal of financial security, but it can also be a very costly exercise. Here are some money-saving tips you may want to pass along.

I Don't Need to Have a Down Payment, Do I?

Today, it's possible to buy a house with no down payment at all. But doing so can be expensive. A conventional mortgage can be arranged for a buyer who has a down payment of at least 25% of the purchase price of the property. Anything less than that means that the mortgage must be insured under the CMHC First Home Loan Insurance program, which protects the lender against the risk of the borrower defaulting on the loan. There is a premium of 1.5 – 3.0% of the amount borrowed, which is added to the loan. So, a mortgage of $200,000 becomes, say, $205,000, resulting in an extra $3000 to $4000 in interest over the life of the loan.

Shopping for a Mortgage

The mortgage market is very competitive today. It pays to shop around and investigate sources other than the major banks: mortgage brokers and virtual banks such as ING Direct often have better rates available. Borrowers can deal with these institutions directly or use the information they provide as tools to negotiate a better deal with their primary bank.

While some lenders are willing to extend the amortization period out to 30 or even 35 years, this isn't a particularly good idea. When borrowing money, the goal should be to pay it off as quickly as possible. Borrowers should start with a maximum of 25 years amortization (less if possible), and plan to pay down a lump sum against the mortgage principal each year. A bonus or a tax refund can be a good source of funds for this purpose, or homeowners could set aside a fixed amount in a special savings account each month.

If the prospective homebuyer has a large enough RRSP, it's possible for the RRSP funds to be used to provide a mortgage. However, the interest rate must be a normal commercial rate, and a full appraisal of the property will be required.

Closing Costs

Remember that there are many other costs associated with the purchase of a home, including legal fees, land transfer tax, moving expenses, and the purchase of appliances. Buyers should consult with a lawyer and determine their requirements ahead of time to make sure that they'll have the funds available.

Not being prepared for these expenses often results in homeowners incurring expensive credit card debt – not a good way to start off life in a new home!

B L Garbens Associates Inc.
39 Granlea Road, Toronto, ON M2N 2Z6
Tel. (416) 227-1543 Fax (416) 227-1547
email: bgarbens@pathcom.com

The RRSP Home Buyers' Plan

The RRSP Home Buyers' Plan (HBP) provides an opportunity to withdraw funds from an RRSP on a tax-free basis for the purchase of a first home. Each plan holder can withdraw up to $20,000, and must repay the amount withdrawn over a 15-year period beginning the second year after the withdrawal is made. For example, if the withdrawal is made in August 2006, repayments must begin in 2008. Repayments can always be made sooner than required, but missing a scheduled payment means that the amount of the payment will be included in the taxpayer's income for that year.

Note that Canada Revenue Agency (CRA) considers a first-time home buyer to be someone who has not owned a home (and occupied it as their principal residence) in the previous five years.

CRA publishes a Home Buyers' Plan (HBP) Guide (RC 4135) that contains all the fine print pertaining to this program.

MATTERS OF INTEREST

This quarter's Budget supplement deals with personal tax changes. Listed below are some measures affecting businesses and corporations:

- The general corporate income tax will be reduced from 21% to 19% by 2010;
- As of January 1, 2008, the corporate surtax for all corporations will be eliminated;
- As of January 1, 2006, the federal capital tax is eliminated;
- The amount of small business income eligible for the 12% small business tax rate rises to $400,000 from $300,000 effective January 1, 2007;
- The small business tax rate reduces to 11.5% in 2008 and to 11% in 2009;

Other measures include:

The carry-forward period for non-capital losses, farm losses, and restricted farm losses incurred after 2005 is extended to 20 years from 10 years. This extension also applies to investment tax credits earned in taxation years that end after 2005; and

A new Apprenticeship Job Creation Tax Credit will provide eligible employers with a non-refundable tax credit equal to 10% of the salaries/wages paid to qualifying apprentices to a maximum credit of $2,000/year per apprentice.