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inBrief financial information you can use
Winter / Spring 2011

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President's Message

I sincerely hope that you and your family managed to take full advantage of the holiday season this year and are not feeling too "merried" out! In this issue, those who have started planning for retirement, or even those who intend to start planning soon, may find a hidden advantage in downsizing a home as part of their plan for a more comfortable retirement. We have also tackled the confusion surrounding eligible and non eligible medical expenses so that you don't miss out on tax savings when you file your returns! Whatever your New Year's resolutions are, I wish you good luck, good health and good fortune in 2011.

Barb

Barbara L. Garbens
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Time to Downsize?

The choice of where to live in retirement is perhaps one of the most daunting decisions many retirees have to make. When your home location is no longer dictated by the demands of a job, you can live anywhere you want, at least in theory. Practically speaking, there are many issues you need to consider.

While some people choose to stay put in the family home, empty nesters who decide they want to downsize have a number of options – buying a condo or a smaller home, or renting an apartment. There are strong arguments in favour of renting at this stage of life.

While younger people are often advised to buy a home in order to build up equity and invest for the future, for the retiree, the future is now. Selling a principal residence, investing the tax-free proceeds, and using a portion of the income to cover rent payments has many advantages once you reach retirement age. Rental accommodation can provide a carefree lifestyle, without the shared ownership drawbacks of condo living. All maintenance concerns, even many of those related to the individual unit, are taken care of by building management. If your needs change, it's relatively easy and inexpensive to move to a new location, compared to selling a property.

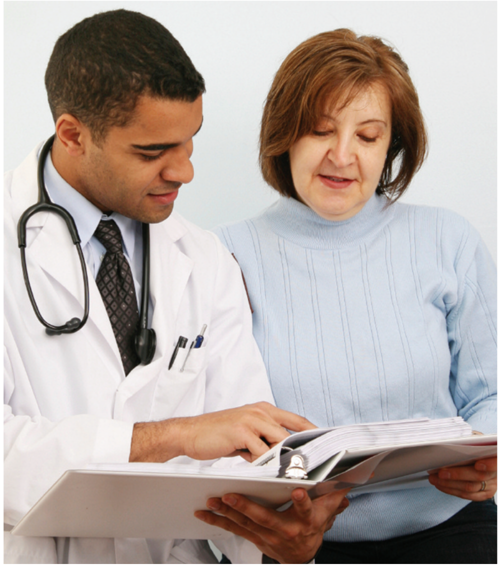
To evaluate the financial benefits of selling your current home and moving to rental accommodation, you need to consider the capital that can be freed up by the sale of the home, and calculate the expected after-tax return on investment. For example, Steve and Maria believe they could net $760,000 on the sale of their home, after real estate commissions, legal fees, and moving expenses. Assuming this capital earns a 5% rate of return, they would receive an annual gross income of $38,000. Depending on their tax bracket, they might be left with $20,000 to $25,000 after tax.

However, don't forget that Steve and Maria incur many expenses related to maintaining their large home. They estimate they spend about $15,000 per year on property tax, insurance, maintenance and utilities. In total, this gives them $35,000 to $40,000 per year that can be applied towards their housing budget. If they find they don't need to spend that much for suitable rental accommodation, they can use the extra dollars for travel or otherwise enhancing their lifestyle.

If this is a decision you'll be facing in the near future, don't hesitate to give us a call – we'll be glad to help you crunch the numbers.

Tax Relief for Medical Expenses

Many people are confused by how and when they should claim medical expenses on their tax returns. In addition, some people believe that, if their employer provides medical coverage, they aren't eligible to claim anything. Let's try to clear up some of the confusion.



How much can I claim?

For your 2010 tax return, each taxpayer can claim medical expenses over the lesser of $2,024 or 3% of net income, whichever is lower. Let's say that Maureen is still working and her net income for 2010 was $90,000. However, her husband Bob retired a couple of years ago, and his net income for 2010 was $30,000. Bob could claim any medical expenses that are in excess of $900 ($30,000 x 3%). Since Bob's threshold is lower, he should claim all expenses incurred by Maureen, as well as any dependent children under age 18, in addition to his own costs.

Do I have to claim on a calendar year basis?

Not at all. When you're sorting through your medical receipts, make sure to look at anything that falls within a 12-month period ending in 2010. For example, you might find that you incurred the highest amount of expenses in the period from February 1, 2009 to January 31, 2010. That's the period we'll use for the calculation, provided you haven't already claimed any of these expenses.

Can I claim expenses incurred for any other relatives?

If you're supporting an adult child / grandchild, sibling or an elderly parent or grandparent, you may be able to claim medical expenses incurred on his or her behalf. Aunts, uncles, nephews and nieces may be eligible as well. The key is that the individual must be financially dependent on you for support. In this case, expenses that exceed the lesser of $2,024 or 3% of the dependent's net income are eligible, up to a maximum of $10,000 per dependent.

If Bob and Maureen, in the example above, are supporting Bob's elderly mother, whose income is $9,000 per year and paying $20,000 per year towards nursing home care for her, each spouse could claim $10,000 of these expenses. The amount of each claim would be reduced by $270 (3% of $9,000).

What if my group plan at work covers my expenses?

You won't be able to claim for expenses you've already received reimbursement for, but most employer plans don't cover everything. There's likely a deductible you have to pay, and perhaps you're responsible for a percentage of each expense. Also, there may be specific expenses your plan doesn't cover. Have a look at our sidebar for some of the most commonly missed expenses. And don't hesitate to give us a call if you have any questions.

VACATION NOTICE!

Please note that I will be away from the office from February 11th – 17th inclusive, and from May 4th to May 30th inclusive for a much anticipated trip to Egypt and Jordan. In my absence, Jon Conway will be available to answer questions via email (admin@blgarbens.com) or phone (416-227-1543).

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Have You Overlooked these Medical Expenses?

Although expenses for purely cosmetic medical procedures were removed from the eligibility list as of March 4, 2010, there are many eligible expenses that taxpayers typically overlook. Don't forget to claim expenses for:

- Premiums paid for private health services plans, including employer group plans and travel medical insurance
- Eyeglass frames, lenses, contact lenses, and laser eye surgery
- In-vitro fertilization
- Purchase or repair of dentures
- Orthopaedic shoes (prescription required)
- Incremental cost of gluten-free products for persons with celiac disease (doctor's certification required)
- Orthodontic work
- Cosmetic procedures incurred before March 4, 2010, including teeth whitening and Botox injections

MATTERS OF INTEREST

JUST A REMINDER!

It can be costly to miss deadlines. Note the following:

Jan 30th – Interest on inter-spousal loans due and payable.

March 1st – Deadline for RRSP contributions

March 15th – If you are an installment remitter, your first tax installment is due for 2011.

March 31st – Trust returns filing deadline.

April 15th – US tax returns due if you are living in the US

April 30th – T1 personal tax returns due.

June 15th – T1 Personal returns due for self-employed individuals. (Remember: all taxes owing must be paid by April 30th)

June 15th – Second tax installment due

June 15th – US tax returns due if you are living in Canada and required to file a US return

September 15th – Third tax installment due

November – Year end tax planning should be considered now

December 15th – Fourth tax installment due

December 15th – 20th – Tax Loss Selling

December 15th – 20th – Top up the RESPs and TFSAs

December 15th – 20th – Make all charitable contributions that you wish to claim for the current year