WARD & UPTIGROVE

CHARTERED ACCOUNTANTS
W&U EST. 1958

2010 YEAR END NEWSLETTER

phone: (519) 291-3040 fax: (519) 291-1850 website: www.wardanduptigrove.com/ December 2010

IN THIS ISSUE

Christmas Shutdown

The offices of Ward & Uptigrove and UMA Financial Consultants will be closed during the Christmas holidays from Friday December 24th to Friday December 31st, opening in the new year on January 3rd.

Family Income Splitting

Income splitting involves shifting income within a family from high rate family members to those who pay a lower rate of tax. The result is an increase in the family's after-tax income. While the Canada Revenue Agency (CRA) has a number of rules specifically designed to prevent income splitting with spouses and minor children (referred to as "attribution rules"), a wide range of income-splitting techniques are still available. The applicability of each one may be limited to specific family situations and objectives. Such techniques include:

- Lending funds to family members for them to invest: The attribution rules do not apply to loans made to a spouse or minor child, provided interest is charged at the CRA's prescribed rate of interest (currently at 1%) at the time the loan is made. Providing the return on the funds invested by the spouse or child exceeds 1% you will realize an overall tax savings. Annual interest on the loan must be paid within 30 days after the end of the year for this strategy to be effective.

- Using a family trust: A discretionary family trust can be formed for the benefit of your spouse and adult children to hold shares of your company. Dividends from your company may be paid to the Trust, then allocated to your spouse and adult children. The Trust can be very useful in funding post-secondary education costs for your children.

- Transferring property with capital growth to minor children. Unlike interest or dividends from your private company, the attribution rules do not apply to capital gains earned by your minor child. If you make investments in your child's name that generate capital gains, it is possible for them to earn $20,000 of capital gains annually without paying tax (assuming they have no other income in the year).

- Transferring property to children over 18 years of age: The attribution rules do not apply where property is transferred to adult children.
- Paying a reasonable salary to a spouse or child employed in a family business.
- Splitting your qualified pension income up to 50% with your spouse.
- Having Canada Pension Plan income split between spouses.
- Having the higher-income spouse pay all living expenses leaving the lower income spouse more cash available to invest.
- Using Registered Education Savings Plans to save for a child's education.

The first three items listed require careful planning in order to be effective. Contact one of our tax advisors for more information on family income splitting.

Registered Retirement Savings Plan (RRSP): Avoiding penalties on excess contributions

In general terms, the RRSP contribution limit for a given year is calculated based on 18% of your earned income for the previous year, less any amount of pension adjustment resulting from contributions made through your employer to your pension plan, plus any unused contribution room from a previous year. To generate the maximum RRSP contribution limit of $22,000 for 2010 and $22,450 for 2011, earned income of at least $122,222 for 2009 and $124,722 for 2010 is required. Your 2010 RRSP contribution limit can be found on your 2009 Notice of Assessment from the CRA.

You can contribute up to $2,000 more than your contribution limit without being subject to penalty tax on over contributions. While you would not be entitled to claim a deduction from your income for the extra $2,000 contributed, you are able to shelter the tax on the income generated from the additional $2,000 within your RRSP. The $2,000 cushion is intended to provide some protection from inadvertent over contributions.

The penalty tax is calculated as 1% per month to the extent that the over contribution amount exceeds $2,000. This penalty tax is expensive, ensuring that it is not worthwhile to make contributions above this limit.

If you decide to take the $2,000 out of your RRSP, the withdrawal will be taxable without you ever having received the benefit of a tax deduction for the contribution. Although it is possible to remove inadvertent over contributions from an RRSP without tax (an offsetting deduction is provided), this remedy is not available where the over contribution was made intentionally. However, you can deduct any contribution made in a prior year to the extent it was not previously deducted, provided you have unused contribution room. Therefore, the $2,000 could be deducted in a subsequent year by treating it as part of that year's contribution limit.

Tax-Free Savings Accounts (TFSA's)

TFSA's, like RRSP's, are subject to contribution limits. When these limits are exceeded a 1% penalty tax per month on the excess contribution applies, and unlike RRSP's there is no 'cushion' for excess contributions. In general terms the annual contribution limit for a TFSA is $5,000 plus any unused contribution room of a previous year, plus amounts you have withdrawn from your TFSA in a previous year.

Many individuals have inadvertently created an over-contribution to their TFSA, because they did not know that withdrawals from a TFSA account only get added to their available contribution room on January 1 of the next calendar year. If you contributed $5,000 to your TFSA account in 2009, withdrew money in 2009, and then contributed more money to your TFSA in 2009, you will be over the contribution limit.

Ontario Child Activity Credit

The Ontario government has introduced a Children's Activity Tax Credit to help parents with the cost of enrolling their children in activities. Beginning with the 2010 tax year parents are able to claim up to $500 of eligible expenses per child. They receive a refundable tax credit worth up to $50 per child under 16 years of age, or up to $100 for a disabled child under age 18.

The Ontario tax credit covers activities that fall into two categories: fitness and non-fitness. The criteria for fitness activities mirrors the Federal Children's Fitness Tax Credit: the activities must require a significant amount of physical activity contributing to cardio-respiratory endurance, plus one or more of muscular strength, muscular endurance, flexibility, and balance. Non-fitness activities include, among other things, music, arts, language, and tutoring.

Tax Loss Selling

Given the stock market performance over the last two years, many investors may be holding securities with accrued losses. Tax loss selling is a strategy to realize accrued losses and carry them back against capital gains realized in the three previous years. You should first detemine your realized gains and losses for 2010 and then review your tax returns for 2007 to 2009 to determine if tax loss selling can benefit you.

However, the primary decision to realize a loss on a particular security should not be tax-motivated. The decision to sell should relate to your investment objectives.

You also need to be aware of the superficial loss rules. These rules apply to deny your loss where you, your spouse, a company you control, or your RRSP (1) acquire the same security within the period beginning 30 days before and ending 30 days after the security is sold for a loss and (2) the security is still held 30 days after the sale.

If you hold securities with accrued losses and don't have current or prior year gains, but your spouse does, there is a strategy to transfer your accrued losses to your spouse for their use. Please contact us if you are in this situation and want further information on implementing this strategy.

CRA considers the settlement date (not the trade date) as the date of a security disposition. Since security trades are subject to a three-day settlement period, and the Canadian stock markets are closed on Christmas Day and Boxing Day, December 24th is the last day to execute a trade to realize a loss in 2010.

Small Business Transition Support Payment (SBTSP)

The Ontario government is providing a one-time payment to help small businesses with the transition to the Harmonized Sales Tax (HST) that came into effect on July 1, 2010. In order to qualify for the SBTSP, the business must

- Carry on business in Ontario,
- Be registered for GST/HST on July 1, 2010,
- Make GST/HST taxable supplies in the course of carrying on business,
- Have a premise in Ontario where it conducts its business,
- Not be a financial institution, and
- Have taxable revenue of less than $2 million in a 12-month period

The SBTSP is calculated as 0.5% of the business's taxable revenue for the 12-month period ending on or after January 1, 2009 but will be no less than $300 and no more than $1,000. This payment is to be included in the business's revenue for tax purposes.

Investment Counsel Outlook

As we turn our attention to 2011, the question most analysts are asking is not whether the economy is recovering but what form is the recovery taking. Will we see a return to robust growth of 3 – 4% per annum or are we in a prolonged period of much slower growth of 1 – 2% per annum? Is the threat of a double-dip recession increasing or receding?

Unquestionably, the economic recovery most analysts anticipated in the early part of 2009 has been somewhat slower than was first forecasted and painfully slow for our neighbours in the United States. As Canadians, we have been somewhat insulated from the worst of the economic issues facing other nations. Entering into the downturn of 2008, our national debt/GDP ratio was the lowest amongst the G8, providing some wiggle room for the federal government to increase spending, invest in infrastructure and provide financial assistance to some of our key industries. Since the first quarter of 2009, our employment numbers have been constantly improving, resources critical to many regions of Canada have rebounded and inflation has remained within the Bank of Canada's targets. There has, however, been some negative drag on Canada's economic performance. The looming issue of an overvalued Canadian dollar and the continued economic weakness gripping our largest trading partner, the US, has served to dampen the prospects for manufacturing in Ontario. This, combined with changes in retail sales tax and increasing hydro costs, has shaken business and consumer confidence to some degree.

There are clearly a number of issues facing the global economy today but these are by no means as ominous as those that were facing us just two short years ago.

First and foremost, many of the world's governments, particularly those in the European Economic Union, have found themselves facing difficult choices between austerity and political expediency. Government debt threatens the future of some of these nations, although many of them have substantial room to reduce spending and repair their balance sheets. This may take some assistance from their economic partners and the International Monetary Fund (IMF), but with the willpower of the citizens of those troubled countries, this is a manageable issue. The second area of concern is the state of the US economy. Some of America's historical competitive advantages have been eroded over the past thirty years. Its diverse challenges and its military and peace keeping roles around the world are putting tremendous fiscal pressure on the government, which has found itself having to print money to prop up the domestic economy.

Finally, the emergence of developing nations is changing the world. The United States, Western Europe and other developed nations must adjust to the shift of economic power to Asia, Eastern Europe and South America. Between China and India alone, up to 1.5 billion people will emerge from rural poverty to a thriving middle class over the next twenty years. This alone will fuel tremendous growth and opportunities worldwide. New utilities and infrastructure, transportation systems, housing, appliances and durable goods, automobiles and trucks will continue to fuel the resource industries, benefiting Canada and other resource rich nations. Emerging markets will be playing catch up and this will translate into substantial growth, outpacing that of North America, Japan and the European Union.

There will always be analysts and economists on both sides of any issue. Some are preaching caution and are still anticipating major problems going forward. However many are on the side of the bulls. Challenges will create opportunities and markets should respond accordingly. With the economy still operating at less than capacity, there are very few inflationary pressures outside of taxes and public sector wages. As a result, interest rates, while they will rise, will increase slowly to maintain balance between sustainable growth and destructive inflation.

Given this economic backdrop, we at IAIC are continuing to move equity weightings toward the higher end of our set ranges. We remain optimistic about the Canadian economy despite the high value of our dollar relative to the US currency. Our markets, driven by resources and financial institutions, should perform relatively well over the coming 12 to 18 months. With short-term interest rates under two percent and failing to keep pace with inflation, we believe that some capital will shift from fixed income to equities in search of yield. In the longer-term, this should result in higher yields for fixed-income. In summary, we believe that the economic recovery will continue, but at a slower pace then we have seen over the past two decades. This will translate well for financial markets, as inflation should remain low even while new jobs are created. Emerging economies will continue to offer Canadian investors the opportunity for growth and the US economy will return to prosperity over time. As always, we advocate discipline and diversification to preserve capital and benefit from economic growth.

Financial Planning and the Investment Counsel

Most of us need to invest to achieve our financial goals and objectives. This means accumulating savings through our prime income earning years or selling a business that generates a lump sum of cash. For business owners focused on building and operating their business, investing outside their area of expertise can be uncomfortable and somewhat daunting. Unfortunately, failing to obtain proper professional advice in this area often prevents us from achieving our goals and objectives.

Financial Planner and Financial Planning

There are numerous types of financial services available to assist in making sound investment choices. For many people, one confusing aspect of investing is the role a Financial Planner plays. Many people call themselves a Financial Advisor or Financial Planner. However, only professional Financial Planners carry a designation of CFP (Certified Financial Planner). A CFP must adhere to strict professional and ethical guidelines ensuring they always act in the best interest of their client. A CFP follows a specific process. Often the process includes a detailed, written financial plan. Within the financial plan is a section called the Investment Policy Statement (IPS). The IPS details specific criteria and strategies unique to each investor. Without a properly designed IPS, investing to achieve goals and objectives is the equivalent of going on a long vacation without a map or plan to get there.

Every individual or family should have a Financial Plan. Your specific goals, net worth, cash flow, spending needs (present and in retirement), dependents, taxes, health and comfort with risk are important issues a Financial Planner should assess to build a plan tailored to your specific situation.

Investment Options available to Financial Planners

Once a financial plan is complete, the Financial Planner can recommend specific investment products or strategies to conform to the IPS. Many options exist including GIC's, mutual or segregated funds, wrap accounts and private pools. An often used option is mutual funds, which in the past have been an effective way to diversify relatively small portfolios. Mutual funds allow an investor to pool his/her money with other investors and buy stocks, bonds and other financial instruments.

Increasingly more common, however, are investment counsels. While in the past, the minimum account size for an investment counsel was $1 million, today quality investment counsels exist with account sizes starting at $100,000. A key advantage of an investment counsel account is that it is unique and customized to each individual client. A counsel will use individual securities such as stocks and bonds held in the name of the investor. Buying and selling stocks is at the discretion of the Investment Counsel Portfolio Manager (ICPM) who considers the portfolio in the context of the specific needs and circumstances of each client. Where as decisions of mutual fund managers affect all unit holders regardless of the consequences to each individual investor, an ICPM can make buying and selling decisions on a case-by-case basis as each portfolio is evaluated. This may provide a tax advantage for the individual investor.

In assessing which investment option best meets your needs it is also important to consider the overall net cost of the various investment models in addition to performance targets. A Financial Planner can assist an investor in comparing the fees between mutual funds, segregated funds, pooled funds, wrap accounts and investment counsels.

If you want to learn more about the development of a comprehensive financial plan do not hesitate to discuss this with your accounting advisor.

Human Resources HR Matters

Upcoming 2011 Training Workshops

- Conflict Management: January 11, 9AM to 1PM
- Delegating for Results: January 18, 9AM to 1PM
- Time Management: January 26, 9AM to 1PM
- Introduction to WSIB: January 27, 9AM to 12 Noon
- Managing Difficult People: February 1, 9AM to 1PM
- Team Building: February 8, 9AM to 1PM
- Leadership Series: February 10, 17 & 24, 9AM to 4:30PM
- Situational Leadership: February 15, 9AM to 1PM
- Building Trust & Respect: February 22, 9AM to 1PM
- Employment Law Series: March 1, 8 & 15 2011, 9AM to 1PM

Register by December 17, 2010 for any of the workshops or series and receive a 10% volume discount. All workshops are held in the training room located in Ward & Uptigrove's office.

To register or get more information email Lindsay Hunsberger at lindsayh@w-u.on.ca, call 519-291-3040 ext 700 or visit www.wardanduptigrove.com.

2011 Summer Student Grants

Last year the Ontario government ran both the Summer Jobs Service (SJS) and Rural SJS program to assist employers in providing summer employment for students. The deadline for applications was late March. The Ontario SJS programs were run on a first come first served basis. A typical 2010 SJS grant was $700 per approved student with a limit of three funded students ($2,100) per applicant. The Ontario rural program was slightly more generous. We expect both programs to be available again in 2011 and encourage you to apply early in 2011 to ensure you don't miss this opportunity. Please contact us if you require assistance with your application.

For more information go to www.omafra.gov.on.ca/english/rural/rsj/index.htm

2011 Employment Insurance (EI) Premium Rates

Effective January 1, 2011 the EI premium rate increases to $1.78 per $100 of insurable earnings. The maximum insurable earnings for 2011 is $44,200. The maximum employee contribution is $786.76. Employers will normally pay 1.4 times the employee contribution or $2.49 per $100 of insurable earnings. The maximum employer contribution for 2011 is $1,101.46.

If you provide your employees with a short-term disability plan, you may be entitled to a reduced EI rate. You must apply for this rate reduction on an annual basis prior to the beginning of the year. For more information visit to the HRSDC website at www.hrsdc.gc.ca and check under Employment Insurance programs.

2011 Canada Pension Plan (CPP) Contribution Rates

Effective January 1, 2011 both the employee and employer CPP contribution rates remain at 4.95% of pensionable earnings. The basic exemption remains unchanged at $3,500.00. Maximum pensionable earnings for 2011 increases to $48,300. The maximum contribution is $2,217.60 for employees, which is matched by the employer.

For information on how a business owner may avoid paying CPP on personal earnings visit our website at www.wardanduptigrove.com or contact us.

Ward & Uptigrove HR Solutions Wellness Design Service

A wellness program in your workplace may help reduce:

- Your group health benefit claims and premiums,
- Absenteeism,

- Short Term and Long Term disability claims and
- WSIB claims and premiums.

In addition it may help to increase:
- Staff health & morale,
- Hiring new staff and
- Staff retention.

We have entered into a partnership with Dynafit Exercise Centre in Listowel to provide wellness programs. If you are interested in implementing a wellness program in your workplace contact Ben Cornell for more information.

In the Community

We participated in numerous charitable fundraising efforts during the year. We donated a total of 669 lbs. of food to the annual Farm Credit Canada Drive Away Hunger event. We also raised funds for events in support of various local causes, including the North Perth Community of Character and Listowel Hospital.

Congratulations

In recognition of his increased responsibilities, John Padfield is being promoted to the position of Principal in the firm effective January 1, 2011.

Comings and Goings

Lindsay Hunsberger joined our consulting division, W & U HR Solutions, in November. Lindsay is a graduate of Wilfrid Laurier University and resides in Listowel.

Annette Hoiting joined our firm in December as a member of our administrative group.

Shanna Koetsier left Ward & Uptigrove in November to pursue other career options and spend more time with her young family.

Janice Newman will be joining our business group in January as a staff accountant. Janice is returning to our firm after several years in the private sector.

Jeff Thompson is joining our farm group in January as a staff accountant. Jeff brings many years experience in the private sector, and most recently six years in the public accounting sector.

We will be welcoming Rebecca Newbigging and Karla Dickson to our firm as co-op education students during the 2011 tax season.

Sharlene Dowdall, CGA, will be on maternity leave as of January 2011.

Robyn MacEwen, CGA, will be on maternity leave as of March 2011.

Reminders

The deadline for 2010 RRSP contributions is March 1, 2011. The 2010 contribution limit is $22,000, increasing to $22,450 for 2011. Your 2010 earned income must be at least $124,722 to make the maximum 2011 contribution.

If you haven't already done so, make contributions to your Tax Free Savings Account (TFSA) (or open a TFSA). Income earned in this plan is completely tax free. Contributions are not tax deductible.

Payments are due by December 31, 2010 to claim a 2010 deduction or credit for the following:

- Charitable donations,
- Medical expenses,
- Political contributions,
- Child fitness costs,
- Investment counsel fees, interest and other investment expenses,
- Interest on student loans,
- Union and professional membership dues,
- Contributions to your RRSP, if you turned 71 in 2010,
- Child care expenses and
- Consider contribution to Registered Education Savings Plan (RESP) of $2,500 to optimize government grant of 20% for eligible RESP plan.

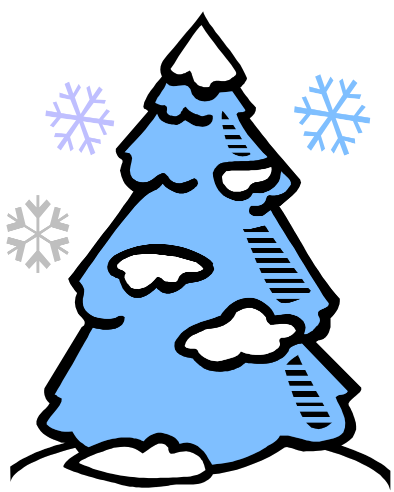
Merry Christmas from the Partners and Staff of Ward & Uptigrove!

Partners:
Bob Loree CA
Brad Buchanan CGA
Wil Bakker CA CFP
Kris Uptigrove CA
Paul Hak CMA
Dave LeGault CGA
Ryan Deyell CA
Besnik Sulemanovski CA

Retired Partners:
Bob Uptigrove CA
Clare Newell CA
Norm MacLennan CA
Tom Soltys CA

Principals:
Grace Slot CA
Pete Verbeek CA
Patty Zurbrigg CA

W&U Human Resources:
Ben Cornell CA CHRP
Carrie Sharpin CHRP
Deborah Good CHRP
Lindsay Hunsberger
Linda Brown



Staff:
Randy Anderson
Gail Barclay
Tracy Bender
Shirley Buchanan
Candace Burnett CGA
Marvin Cajina
Murray Coghlin
Rita Cole CGA
Mark Cranbury CMA
Don Dietrich
Sharlene Dowdall CGA
Barb Driscoll
Peter Dykstra
Rachel Elliott
Cheryl Gibson CGA
Valerie Gillespie
Mary Ann Grobbink
Becky Harding
Ruth Helmka
Johnny Herries
Annette Hoiting
Irene Keunen
Cheryl Laffin
Karen Larson
Joan Livingston PCP
Debbie Loree
Jennifer Loree CA
Robyn MacEwen CGA
Brendan Magee CA
Curtis McLaughlin
Shayna Morgan
Mark Nolan
Dianne Nonkes
John Padfield CA
Doug Porter
Donna Quipp
Lindsey Robinson CA
Luke Simpson
Brenda Sippel
Jon Soltys CA
Michael Van Niekerk
Steven Van Meeteren
Jason Voll
Ray Walter CGA
Mike Weber