



P E R S P E C T I V E

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WINNING INCOME STRATEGIES: KEEPING IT IN THE FAMILY

Splitting income with your family can help you save on your taxes. There are strict rules about what you are allowed to do, but great opportunities do exist. If you have children or grandchildren, read on...

The income attribution rules of the Income Tax Act limit your ability to split income among family members. When you give or lend money to your spouse or child, these rules work to ensure that the income earned on that property gets attributed back to you. It is then taxed at your higher income tax rate.

Income splitting offers too many advantages for one article, so I'll focus on a few strategies that involve children and grandchildren and cover strategies for spouses in another edition.

Capital gains: Capital gains are profits earned from the sale of an asset. Under the Income Tax Act, capital gains earned by children - even minors - are not attributed back to a donor or lender. If you expect your assets to increase in value, consider transferring them to your children now. All future gains on those assets would then be taxable at your children's income tax rates.

As transferring assets is viewed as a disposition, you will be taxed on any gains accrued before the transfer. So it may be best to set up a portfolio in your children's name with liquid funds already available. Note also that property transferred to children over the age of 18 is considered a gift - making it the legal property of your adult child. If you prefer to retain control, explore transferring your property to a trust set up for the benefit of your children.

Principal residence: Do you have children over the age of 18 and studying away from home? Instead of paying their rent, consider lending them money to purchase a condo or other residence. If your

child does not own other property, it will be considered his or her principal residence - making gains on the sale exempt from taxation. To protect and maintain control over your investment, consider drafting an interest-free loan agreement with your child or setting up a principal residence trust.

Registered Education Savings Plan (RESP): If you set up RESPs for your children or grandchildren, you can contribute up to \$4,000 per beneficiary each year up to a lifetime limit of \$42,000 per beneficiary. While contributions are not tax deductible, income earned in an RESP is tax deferred until it is withdrawn to pay for the post-secondary education of the beneficiary. It is then taxed in the hands of a beneficiary who likely has little income.

More importantly, the federal government will contribute an additional 20% of your contribution to a limit of \$2,000 in the form of a grant - ensuring an automatic 20% return on your investment! You can withdraw the capital you contribute to an RESP at any time without adverse tax consequences.

Finding the perfect strategy for you

Income splitting can have tax and other unforeseen consequences. Before considering any of these recommendations, consult with your advisor to benefit from a perfectly tailored strategy.



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FRONTAL COLLISION: THE REAL Y2K BUG

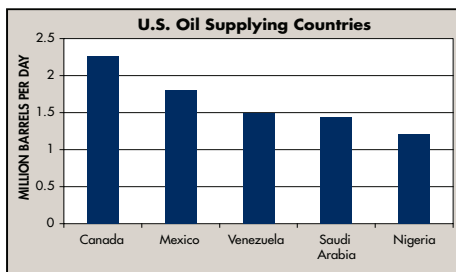
**A LOOK AT HOW WE GOT HERE
AND WHAT'S NEXT FOR THE ECONOMY**



On December 31, 1999 at 11:59, the world held its breath. Doomsayers predicted that computers would crash and send the world into chaos. The computers never failed, but the crash came later in the form of three major developments that adversely affected our economy.

In 2000, the production of conventional oil peaked. In 2001, China entered the World Trade Organization (WTO). The new millennium announced a rapid deterioration in geopolitics – of which the World Trade Center attack was a major symptom and catalyst. The emergence of China has accelerated the demand for oil. Conventional oil production is declining and straining our oil supply while geopolitics deteriorate and make it hard to find possible solutions.

Financing the deficit: Since the election of George W. Bush, the U.S. administration has obsessed over security and tax cuts. Add the high cost of war and the occupation of Afghanistan and Iraq and it's a recipe for high government and current account deficits. No longer savers, U.S. citizens are buying expensive cars and leaving our consumer goods suppliers (China and Japan) to finance this twin deficit.



Source: Energy Information Administration

The Canadian dollar – an oil bet: Rising energy prices and the weakening relationship between the U.S. and Venezuela drive our dollar's good fortune. With conventional oil production declining, the answer to growing

demand is to develop oil sands. As Canada and Venezuela have the only known large oil sand reserves, Americans look north to power their SUVs.

Our nation's current account surplus stands at \$30 billion (CA) whereas the current account deficit of the U.S. sits at \$220 billion (US). In the first quarter of 2006, 85% of Canada's trade surplus came from energy, compared to 80% in 2005 and 65% in 2004. The energy trade surplus fuels the appreciation of the Canadian dollar. Since 2000, 100% of the deterioration in the U.S. trade deficit has been energy-driven.

Peace dividend no more: The end of the Cold War in the 1990s provides an historical context to the current period of economic activity. Low commodity prices allowed the U.S. to focus on developing products and technologies. Reduced military spending (also known as the "peace dividend") in part financed the reduction of the budget deficit to the point of briefly enjoying surpluses. Stable geopolitics, low inflation and the adoption of a western-style market economy by Eastern Europe and China created the perfect environment for brand-name companies such as Coca-Cola and L'Oreal.

Today, companies and consumers are focused on managing energy costs. The U.S. Treasury has plunged into a deep deficit that has investors worried about the "great global imbalance". In relation to the Euro and the Canadian dollar, the greenback is in previously unimagined territories.

What's next: We don't see anything improving the balance between supply and demand of energy anytime soon. With oil reserves declining, the financing of additional oil production will require major investments, leading to greater hikes in the price per barrel.

With an energy-driven dollar, we think Canadian equities will likely continue to outperform their U.S. counterparts while the price of oil rises. We expect the opposite to be true – as the price of oil falls, Canadian equities will likely lag. So maintaining a balance in the allocation of Canadian, U.S. and international equities remains a key issue for investors.

Finally, as a consequence of high energy prices – and in combination with rising interest rates – the U.S. economy may eventually fall into recession. As such, the current rising bond yield trend may lose steam sooner rather than later, having a positive effect on the prices of bonds, REITs and non-cyclical income trusts.



*Raymond Kerzérho
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WINNING THE TAX GAME

PROFESSIONAL CORPORATIONS AND INDIVIDUAL PENSION PLANS

Want to benefit from advantages such as income sharing, reduced tax rates, expense write-offs and pension plans? Find out if professional incorporation is the right strategy for you.

I often say that more net worth is lost to poor tax planning than to poor investments. Why do some people with similar businesses and incomes pay more tax than others? There are myriad reasons. But one that is really widening the gap is the Professional Corporation (PC).

Professional incorporation is the process through which another layer of tax liability is created between the professional and his business. All of the income and expenses of the business are captured within the corporation. Income is then shared by paying the taxpayer only what he needs to meet his daily lifestyle. The remaining income is taxed in the hands of the PC – at less than half the rate of an individual in the highest marginal tax bracket.

Though the money remaining in the corporation belongs to the corporation, these retained earnings can be distributed in various ways, at various times and, sometimes, to various people. The method of distribution (for example a dividend payment) can also offer significant tax advantages to the individual.

This tax saving is illustrated in the provided example of an Ontario-based professional. Mr. Professional leaves \$40,000 (\$50,000 in R/E less the \$10,000 in corporate tax) in his PC annually and saves \$13,500 in taxes year after year.

	Self-Employed	Professional Corporation
Gross Billings	\$300,000	\$300,000
Rent/Salaries/Supplies	\$100,000	\$100,000
Net Business Income	\$200,000	\$200,000
Corporate Retained Earnings	n/a	\$ 50,000
Personal Taxable Income	\$200,000	\$150,000
Corporate Tax on R/E (20%)	n/a	\$ 10,000
Personal Tax	\$ 76,650	\$ 53,150
Total Tax Paid	\$ 76,650	\$ 63,150
Net Tax Saved with PC		\$ 13,500

Just as RRSP contributions could lower his overall tax liability in the self-employed scenario, there is a similar opportunity within the structure of the PC: an Individual Pension Plan (IPP).

An IPP is a defined benefit pension plan funded to meet a predetermined income at retirement. Advantages include contribution limits above and beyond those of an RRSP, creditor protection of the plan assets and, in some cases, improved planning opportunities around the sale or succession of the business. Contributions are also a deductible expense for the corporation. So what's the catch?

Assets are locked into the IPP and usually can only be withdrawn during retirement. Additionally, IPPs have mandatory funding

requirements that must be met over time. A type of “forced” retirement savings, IPPs can eliminate self-discipline challenges that can see you favoring today's lifestyle at the expense of your retirement needs.

Is the PC/IPP solution right for you? If you are a self-employed consultant, small business owner or an Ontario-based medical practitioner, ask yourself some simple questions. Do you have taxable annual income of at least \$150,000? Are you saving a minimum of \$30,000/year for your retirement? Are you interested in attaining or increasing creditor protection of your assets? Are you planning to pass your business or practice on via sale or succession?

If you answered yes to any of the above, contact your PWL advisor to learn more about the benefits of incorporation and IPPs. You may be paying too much tax on money you are not spending.



*Sean Quinlan
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PWL NEWS

MORE IMPROVEMENTS ON THE WAY THIS YEAR

As we celebrate our 10th anniversary, we are more committed than ever to providing the best-possible offering to ensure your financial well-being. That means doing more than delivering effective services guided by the highest professional standards and ethics. It means we listen to you and give you what you need.

Improved performance reporting – at your fingertips

PWL will launch a completely redesigned portfolio performance report based on client feedback and focus group testing. Featuring a user-friendly design, clear language and meaningful graphical representations, this new format will enable you to easily review details of all of your accounts within one simplified and comprehensive document.

Personalized wealth management services

PWL will be introducing integrated wealth management services specifically tailored to the needs of retirees, full-time employees, executives, business owners and professionals. From financial planning through to portfolio management, our experts are able to meet every aspect of your financial needs based on an accurate understanding of your personal situation.

PWL has the resources, expertise and team to deliver – ensuring you headache-free solutions and lasting peace of mind.

Communications makeover

To better reflect our modern and professional approach to serving you, PWL will be transitioning to a new and improved look. Enhanced designs, clean layouts and new colors will upgrade components from our logo through to our improved reports to make PWL communications even more effective for our valued clients.

To learn more about any of the above initiatives, please call me at 1-800-343-7566, extension 264.

Julie Marchesseault
Director, Marketing
PWL Capital, Montreal

ACCOUNTANTS PRAISE PWL REPORTING

Discover why PWL's system for calculating the adjusted cost base of investments is a significant value-added advantage for our clients.

At the end of the last tax season, accountants confirmed that PWL's tracking system for calculating the adjusted cost base (ACB) of investments is a definite edge for taxpayers.

Determining an individual's capital gains and losses has become a major cost in the preparation of income tax returns. Some accounting firms are now billing the portfolio accounting component as a separate service. One accountant reported that some of her clients were spending thousands of dollars on portfolio accounting each year. She went on to add that PWL's ACB reporting is the best she had ever seen.

By providing clear and concise information, our system simplifies the portfolio accounting part of tax return preparation – and that can significantly reduce your total cost of tax preparation. These reports are readily available and we encourage all of our clients with non-registered accounts to ensure that they take advantage of this service. If you use third-party tax preparation services, you can save substantial sums by providing this information to your tax specialist.

As a comprehensive wealth management firm, PWL continues to work with our software suppliers to ensure that our investment tracking system remains current, accurate and state-of-the-art. To learn more about our acclaimed ACB tracking system, just contact your PWL advisor.

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