

GETTING PERSONAL CANADA: Making The Budget Work For You

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Of DOW JONES NEWSWIRES

757 words

2 February 2009

12:00

[Dow Jones News Service](#)

English

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TORONTO (Dow Jones)--With last week's federal budget seeking to bring tax relief to some individuals and small-business owners, financial planners have advice for those affected: save some money and take advantage of ways to pay less tax.

The Canadian government increased the threshold for the 15% tax rate, the country's lowest, to C\$40,726 from C\$37,885. The limit for the second tax bracket has been increased to C\$81,452 from C\$75,769.

Another highlight for individual investors is the higher threshold for eligibility for the small-business tax rate, to C\$500,000 from C\$400,000. Higher maximum loans will also be available under the Canadian Small Business Financial Program.

Since both measures are expected to increase some people's access to cash, financial planners say this is the time to be prudent and consider allocating some resources to achieving long-term financial goals, instead of spending everything towards a buying a new flat-screen TV or going for an exotic vacation.

David Phipps, certified financial planner at Assante Capital Management, recommends that people consider allocating some of their money to retirement savings, debt reduction, insurance and other investment vehicles that could help them save some money, or achieve some of their financial objectives. "Hopefully, this tax reduction will help them meet their financial-planning goals," Phipps said.

For some small-business owners who will enjoy lower taxes this year, the biggest decision would be whether to re-invest extra cash in their businesses, or pay themselves and their employees through bonuses and higher salaries.

Peter Merrick, a certified financial planner at Merrick Wealth Management Inc., said business owners in higher income brackets might be better off investing the extra cash into the company.

"If I put that money outside of my company, I'll be taxed to the maximum rate so I'll end up having less money," Merrick explained. "But if I do it within my company, I'll be in a better position tax-wise."

Seek Tax-Sheltering Mechanisms

Merrick recommends that business owners look at some types of investments that could serve as tax-sheltering mechanisms, while increasing some dividends over time. The mechanisms could include purchasing corporate mutual funds or a corporately owned universal life policy that is tax-exempt.

Other proposed budget measures that are expected to benefit taxpayers include the temporary new Home Renovation Tax Credit, which will be given to those who spend money on goods or home

renovations before Feb. 10, 2010. Consumers can claim a 15% credit against spending from C\$1,000 to \$10,000, with a maximum credit of C\$1,350.

First-time home buyers will also benefit from the higher withdrawal limit from their retirement savings plans for the purposes of buying a first home. The new proposed withdrawal limit will be \$25,000, up from the previous C\$20,000.

The proposals are part of the overall C\$39.9 billion two-year fiscal-stimulus package delivered Tuesday by Finance Minister Jim Flaherty. The proposed budget, which seeks to combat the current recession, is expected to boost consumer spending, home ownership, infrastructure and aid ailing sectors such as auto, manufacturing, and forestry. Canada expects to incur a C\$84.9 billion budget deficit over the next five years, after more than a decade of budget surpluses.

Canada's main opposition, the Liberals, have agreed to support the budget, so it will pass Monday's vote and the Conservative Party will remain in power.

While it's too early to tell what people, particularly business owners, will do with the extra money, one thing is clear for some investment advisers: "I would rather see money in the hands of business owners who can create jobs, who can buy inventory, who can expand their business than in the hands of the government," said Jeff Wareham, a wealthy adviser from Bank of Nova Scotia's (BNS) Scotia Mcleod.

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