

CLIENT NEWSLETTER - FEBRUARY 1998

Happy New Year!

Bookkeeping/Payroll Clients

We are preparing T4 slips for bookkeeping/payroll clients at this time. Please deliver 1997 payroll details no later than Feb 15/98 to ensure we can complete the returns before the deadline. (T5 slips will be produced automatically for corporate year-end clients.)

Tax Season Office Hours

The office will be open from 9:00am to 5:00pm Monday through Saturday. These extended hours will be in effect from March 2nd to May 2nd. This year, evening hours are reserved for appointments with comprehensive personal financial planning clients.

Once again, we are offering open hours every Friday and Saturday. You may deliver income tax information (and pick-up completed returns) without an appointment every Friday and Saturday throughout tax season.

Payment Policy

Last year, we were not paid for many tax returns completed; we are unable and unwilling to sustain such a rate of delinquency. Therefore, we are implementing a more rigid payment policy for all clients.

We will quote a firm price when you deliver your file. This amount will be payable when you return to sign the Efile authorization form. No returns will be Efiled until paid in full and properly authorized.

Sadly, we can no longer accept post-dated cheques for income tax preparation. Experience has taught us that we can not rely on promises to be paid later, even when we know a significant tax refund is coming.

Psalm 23

The Lord is my Pace-setter, I shall not rush;
He makes me stop and rest for quiet intervals,
He provides me with images of stillness, which restore my serenity.
He leads me in the ways of efficiency through calmness of mind,
And His guidance is peace.
Even though I have a great many things to accomplish each day,
I will not fret for His presence is here,
His timeliness, His all importance, will keep me in balance.
He prepares refreshment and renewal in the midst of my activity,
By anointing my mind with His oils of tranquillity.
My cup of joyous energy overflows,
Surely harmony and effectiveness shall be the fruits of my hours,
For I shall walk, in the pace of my Lord,
And dwell in His house forever.

Toki Miyashina

(Psalm 23: Several Versions Collected by K.H. Strange, Edinburgh; The Saint Andrew Press. In Peale, N.V. (1974). You can if you think you can. Old Tappan, NJ: Spire Books, p.52.)

Preparing Your Tax Return

Basic Tax Returns (\$30/Efiled return)

Everyone is likely to have at least some of these items:

- Revenue Canada's mailing label
- T4 - employment income
- T5 - investment income
- T3 - trust income
- T4A - pension/other income
- T4A(P) - Canada Pension benefits
- T4-OAS - Old Age Security benefits
- T4U - Employment Insurance benefits
- T4RSP - RRSP withdrawals, etc
- T4RIF - RRIF withdrawals, etc
- T5007 - social assistance & workers' compensation
- T2202 - tuition & education credit receipt
- RRSP contribution receipts
- child care expense receipts
- charitable donation receipts
- medical expenses & health insurance premiums
- safety deposit box, CSB interest paid
- spousal or child support (paid or received)
- rent or property tax receipts

Advanced Tax Returns (\$30/schedule)

The following indicate additional schedules may be required to complete your return:

- TL2 - travel & lodging for transport employees
- T2200 - certificate of employment conditions
- T4A - showing self-employed commissions
- T5013 - partnership income
- T5008 - securities transactions
- investments outside of an RRSP
- moving more than 40km
- income from outside Canada
- business or rental income (complete enclosed summary as in prior years)

How to Organize It...

You can help speed the processing of your return by taking a few minutes to sort the paperwork before delivering it to our office.

- ✓ sort slips separately for each individual
- ✓ sort by type, in the order listed above
- ✓ remove any carbon paper
- ✓ remove envelopes & attachments
- ✓ do not separate duplicate receipts
- ✓ use paper-clips instead of staples

Deliver complete information only in a single envelope, as soon as possible. RevCan starts processing returns in the last week of February.

No Budget Newsletter

We decided to send this newsletter in early February to give you time to prepare your tax information. We did not wait for the upcoming Federal budget speech.

We will prepare our commentary as in the past, but will distribute it only those who specifically request a copy. Just ask when you deliver your tax information, and we'll include a copy with your completed return.

The February 1998 issue of Canadian Living magazine contains an article "You Shall Be Free: Expert Tips on RRSP Smarts." It features a general question and answer discussion with three prominent financial writers, Gordon Pape, Ellen Roseman, and Garth Turner. The article gave me shudders, especially the following section (I quote the article in the grey boxes followed by my reaction):

I am in my early 40's and earning \$50,000 annually. I have \$70,000 equity in my house, which has a current market value of \$240,000. Though my company offers no pension plan, I have \$40,000 invested in my RRSP, and I make \$5000 in RRSP contributions each year. Am I on target for comfortable retirement at age 65?

The client's question leads me to ask what they would consider a "comfortable" retirement. Do we have to replace the \$50,000 income, or will a portion of it suffice? Most people find 80% of their working income more than sufficient for the retirement lifestyle of their choice. Adjusted for 3% inflation, this means an income objective of almost \$84,000 before taxes.

Pape: Assuming a rate of return of 10% for 25 years, your \$40,000 will have grown to \$433,400 by the time you are 65. Your annual contributions of \$5000 to your RRSP will add another \$491,738, for a total of \$925,138 after 25 years. If you convert the RRSP to a RRIF, your first year's minimum payment will be \$37,000 and change, according to a mandatory government formula. And that is not inflation adjusted. So your income will be substantially below your current income. You should at least make the maximum allowable RRSP contribution each year. On earned income of \$50,000, that would be \$9000 annually.

Mr. Pape's calculations are sound, but he seems to miss the point. The RRIF minimums are just that; we are free to withdraw any amount at any time. A \$925,000 RRSP invested at just 9% will generate over \$84,000 per year. This alone meets our inflation adjusted income needs for a comfortable retirement.

Where does Mr. Pape propose that the client find an extra \$4000 per year for RRSP's? Remember, the client is carrying a \$170,000 mortgage with payments of \$1115 per month (assuming 8% interest over 20 years). This is 40% of after-tax income.

Roseman: I don't think you are on target. You don't have a company pension and you are not putting in your RRSP maximum. I know that would be difficult to do because \$50,000 isn't a whole lot of money if it represents your household as well as personal income. You have only \$70,000 equity in your house; that's not a lot either. If you approach retirement with little equity in your house, you don't have the option of selling it to get money that way. You may need to look at ways of increasing your income in order to save more.

The absence of a company pension is not necessarily a problem. Pension regulations limit returns, mobility, and contributions to RRSP's. All this often makes a company pension plan less attractive than a well managed RRSP portfolio.

Furthermore, even if the client has just assumed the mortgage, and they make only the minimum payments, it will still be paid off just before retirement. Adjusting the value of the home for inflation means a minimum value of \$450,000 at age 65. After replacing the existing home in retirement, the remaining (tax free) funds could generate an additional \$11,000 of income annually.

Finally, while Ms. Roseman recognizes the difficulty of increasing RRSP contributions, she dismissed the problem by suggesting the client simply increase their income. This is not financial planning, it is patronizing.

Turner: The average amount contained in an RRSP by people in their early 40's is around \$40,000. It is shockingly less than they'll need to support themselves in retirement. The strategy for you should probably be to forget about paying off your mortgage. I would suggest that the mortgage be merely serviced, so you can maximize your cash flow into RRSP's and other investments.

Mr. Turner enjoys quoting statistics, but fails to relate them to the client's needs. He suggests the client forget about paying off a mortgage; but we already know that the mortgage will be paid off before retirement in any case.

All three financial writers concluded that the client will not have sufficient income for retirement unless RRSP contributions were nearly doubled. None bothered to analyze the client's needs in retirement, or determine what contribution level *would* be enough to meet those needs.

Directing more of one's income towards building wealth (either as RRSP contributions, or additional mortgage payments) is always a good strategy. But we can readily demonstrate that this client is on track to produce \$95,000 of sustainable annual income at retirement. This is more than 90% of pre-retirement income, adjusted for inflation. This should be more than sufficient, especially given that they will be mortgage-free.

All three authors seem more pre-occupied with selling investments than helping the client determine and meet the *client's* needs. Furthermore, none of the authors raised other important issues that are as critical to achieving retirement goals as RRSP contributions:

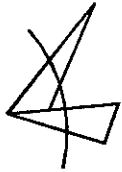
- Income protection to ensure that mortgage payments and RRSP contributions can be maintained in case of an interruption of income (either by disability, death of a spouse, or job loss).
- Setup a monthly contribution plan for RRSP's to take advantage of dollar cost averaging. This same plan lets us reduce tax withheld from payroll, rather than waiting until we file a tax return to collect the refund.
- Investment selection and management is critical for this client because additional contributions are not available to make up for poor portfolio management. With effective management over the next 20-25 years, the RRSP could exceed the values projected earlier.
- Estate planning to minimize income tax upon the collapse of the RRSP plan, especially as the client nears retirement and the plan's value will be subject to a 50% income tax rate.
- Determine other major cash flow requirements before and after retirement (tuition fees for children, uninsured medical expenses, replacing family vehicle, home renovations, etc.)

My investment advisor, Brenda Maschio, agrees saying "there is a danger in accepting any general or specific advice from individuals who report about the industry, but have never worked in it. There is no substitute for knowledge and experience when imparting advice."

One More Thing...or Maybe Two

We are asking all our clients to deliver Zehrs and UltraFood cash register tapes with their tax information. Every \$450 of tapes raises \$1 for the Distress Centre of Wellington-Dufferin.

We are also asking clients to deliver Canadian Tire cash coupons to help the youth of Knox Presbyterian Church purchase new sports equipment.



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CLIENT NEWSLETTER - AUGUST 1998

Tax Season Summary

We would like to take this opportunity to welcome our many new clients who joined us this year. We may have had limited time to visit with you in tax season, so please feel free to call for a private appointment during the summer if you wish to discuss your income tax, business, or any other matter in more detail.

Thank you to all our returning clients for their continued confidence and referrals. We continue to enjoy excellent growth in our practice through client referrals. This year we noticed a significant decrease in the proportion (but not the number) of new clients who came to us because of our Yellow Pages ad.

This is good news for our practice. It allows us to decrease the size and cost of our advertising. But more importantly, it confirms that our clients appreciate and value our services enough to refer us to their family, friends, and colleagues. We will continue our efforts to deliver quality services for reasonable fees.

In the Pipeline...

This year, we tested some new internal procedures. Some worked quite well, others not so. After evaluating our work patterns, we have refined them for next year. Clients will be directly affected by some of these changes, including:

- improved database information & reporting
- increased management of our time & workload
- clarification of tax season policies & procedures
- enhanced support & services through e-mail

We'll present details of these changes in a later newsletter.

Office Hours

Except for statutory holidays and vacation, normal office hours will be 9:00am to 4:00pm from Monday to Friday; the office is closed evenings, Saturdays and Sundays.

Appointments outside these hours may still be scheduled on an individual basis. At this time, we are booking appointments two to three weeks ahead and expect to continue doing so from now on. Please keep this in mind when calling for an appointment.

With our office in our home, our personal time is especially important to us. This year we will close the office from December 21st 1998 to January 3rd 1999 for Christmas break.

Extended hours for income tax season will begin on Monday March 1st 1999, though we will be changing our tax season procedures for drop-off and pick-up of returns.

Additional Workload

In addition to our regular work-load for bookkeeping, corporate year-ends and financial planning clients, we have several special projects on our desks this autumn.

Corporate Update

For all our clients with corporations, we will conduct an in-depth review of our files to ensure compliance with the evolving standards set by my professional association. At the same time, we will ask your attorney to ensure the corporate record book is up to date and accurately reflects the (implicit) decisions of shareholders and directors.

New Software

We will be re-developing our financial planning software. Together with purchases of highly specialized reference software, we will greatly enhance our ability to deliver income tax and financial planning services without increasing our fees.

As time permits we will develop an interactive graphic presentation version of the personal financial planning software. This software will be used to preview our PFP services for new clients, as well as present complete plans to existing clients.

Web-Site & E-Mail

The same process that creates the PFP presentation software will produce a web-site for the practice. Eventually the site will include financial tools such as a loan amortization calculator, a lease/buy analysis, and a simple tax planner. Eventually, these tools will be linked to a financial planning database and a special e-mail address for assistance.

In addition, we will search for and verify e-mail addresses for all our clients and update our contact management system. We will use this information to provide notice of tax deadlines, request pick-up of completed files, offer budget comments, etc. to PFP clients, and even deliver advanced copies of this newsletter to all clients.

Electronic Filing of Tax Returns

Revenue Canada and the Ontario Ministry of Finance are working together to extend E-File beyond personal tax returns. In October 1998 corporate income tax, payroll tax, and sales tax returns may be filed electronically. However, we will not provide these E-File options for at least another year. At this time, the cost of ensuring confidentiality is prohibitive to a small practice. We will, however, continue to E-File personal income tax returns.

**Comprehensive Financial & Strategic Planning & Related Support Services for
Individuals & Families, Owner Managed Businesses & Non-Profit Organizations**

The Year 2000 (Y2K) Problem

The Year 2000 'bug' is a design flaw found in almost all computers built before 1998. The Real Time Clock (RTC), a component of the CMOS chip (i.e. hardware) calculates the year as two digits. When powered up, the BIOS firmware appends these two digits to a stored century figure, and provides the resulting four digits to the operating system (OS).

Since the digits "19" are typically appended for the century, most operating systems will get the year 1900 on January 1, 2000. However, most operating systems will not accept 1900 as the year, and will "correct" it to 1980. Some BIOS's will not even boot a computer when the year is not between "94" and "99".

Some BIOS extensions compensate for these errors; other systems can be corrected with a TSR program loaded by the operating system. Both create a measurable delay between power-up and the correction to the date in the operating environment.

While most programs accept the date provided by the operating system, some take the date directly from the BIOS. In any case, programs that perform date-sensitive calculations (such as scheduling, bookkeeping, etc) will produce errors if they get the incorrect date.

Finally, some programs do not provide four digits to store the date. Therefore, even if they get the correct date from the BIOS or OS, they will produce errors.

Your computer will have a Y2K compliance problem if:

- ▶ the date does not properly change from 1999 to 2000 while the computer is on (OS failure)
- ▶ the computer does not retain the correct date when shut-down after December 31, 1999. (CMOS failure)
- ▶ programs receive the wrong date, even when a software solution is installed (BIOS failure)
- ▶ software provides only two digits for the year internally (program rather than system failure)

A secondary millenium 'bug' relates to the calculation of leap years. According to the Gregorian calendar, every fourth year is supposed to have an extra day, except the century years (1800, 1900, etc). However, the millenium years (1000, 2000, etc) DO include this extra day. Systems that read the year 2000 as 1900 will miss the leap day. This is a less critical problem.

Bookkeeping and corporate year-end clients will find their June, July and/or August regular invoices enclosed with this newsletter. Some clients may also find a statement showing the balance of their account.

Monthly level billing is intended to smooth cash flows for both our clients and ourselves. If monthly invoices are unpaid for three months, level billing will be cancelled and you will be asked to pay for all work in full upon completion.

In that case, we withhold tax returns or other third party reports until payment is received. Any other payment arrangement requires post-dated cheques.

Enclosures

We use this regular newsletter mailing to return documents and other information to clients. This is especially helpful after a busy income tax season. I will no longer use the checklist format to identify which enclosures may be included with your individual newsletter. Instead, each item has a cut coloured sheet attached with instructions.

With this newsletter, you may find one or more of the following items for your records (no particular action required):

- ✓ tax files or information slips not previously returned to you
- ✓ your 1997 Notice of Assessment from Revenue Canada
- ✓ your income tax refund cheque delivered to us in error
- ✓ a detailed schedule of fees and services (new clients)
- ✓ our 1998 Federal & Ontario Budget commentaries

We will contact you by telephone in the next few weeks to follow-up on these enclosures:

- ✓ a capital gains issue in your tax file
- ✓ personal financial planning updates
- ✓ services to handle the "Year 2000" problem
- ✓ corporate year-ends or preliminary reviews
- ✓ incomplete bookkeeping files

If you have not received one of these enclosures but think you should have, please call our office immediately.

The Solution?

The need and cost to fix the problem depends on the nature of the problem in your particular computer. This decision is complicated by the fact that even "new" hardware may exhibit the same problems as your current system. There is no accepted standard to rate hardware for Y2K compliance.

If you use your computer for business (accounting, scheduling, etc) your livelihood could depend on how you deal with the Y2K problem. A small investment now could save a great deal of time and money early in 2000.

I have developed a diagnostic tool-kit to fill this information gap. With it I can test your hardware for Y2K compliance and produce a detailed written report. The report will describe the nature of the problems (if any) in your particular computer and make specific recommendations to overcome these problems.

In addition, the report will list your installed software and the Y2K compliance for each program. Guidelines and resources for software upgrades after my initial review will also be included.

This service will cost \$100 for the first computer, plus \$25 for each additional computer at the same location. I will need approximately two hours at the computer, plus time in my office to analyse results and produce the final report.