SPECIAL ISSUE: ADVISOR OF THE YEAR AWARDS

ADVISOR'S EDGE

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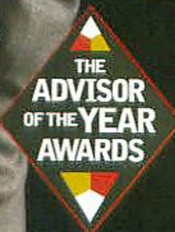
Rod Burylo
Cam McIntosh
Dave Appleton
2004 Advisor of the Year winners
Prairies Region

DREAM MAKERS

Thanks to outstanding advice, clients of average means achieve their financial ambitions.



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PRAIRIES REGION

THANKS TO MY ADVISOR

"We retired in Mexico and now live the good life."

WILLIAM AND EDITH SMITH* had been travelling to Mazatlan for annual vacations. The small Mexican city had become a favourite destination and they wondered whether it would be possible to retire there given all the tax and legal issues surrounding non-residency.

The Smiths contacted advisors Cam McIntosh, Rod Burylo and Dave Appleton for assistance. While each is licensed by different dealerships, they combined their planning strengths to deliver a specialized service for Canadians preparing for non-residency.

William, 67, and Edith, 64, were in relatively sound financial condition. First, they would have to prove to the CRA that their move to Mexico was permanent and had a valid purpose. Accordingly, McIntosh, Burylo and Appleton advised the Smiths to sever their primary and secondary ties to Canada. These ties included personal property, provincial health plans, social memberships, Canadian-registered automobiles, telephone listings and newspaper subscriptions.

The couple set up new credit and banking arrangements in Mexico while maintaining one bank account in Canada so they could receive income payments from various retirement plans.

At the advisors' recommendation, Edith converted her RRSPs to RRIFs to reduce the withholding tax from 25% to 15%.

To support the case for non-residency, the couple kept documentation of their departure date, and established their Mexican telephone listing, banking arrangements, property lease and utilities, auto ownership, driver's licences, furniture and clothing through Mexico immigration.

As part of their exit, William and Edith would also be required to complete final T1 tax returns. As they were leaving Canada, they would have a deemed disposition on certain types of properties, so capital losses or gains would have to be reported and any tax credits would be pro-rated. This tax would be their "departure tax." Edith's shares had a deemed disposition, producing a capital gain of $12,500.

* *All client names have been changed.*

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CANADIANS RETIRING ABROAD CORPORATION, Calgary

PRAIRIES REGION WINNERS

Photography by John Gaucher

But their RRSPs, RRIFs, RPPs and principal residence would not attract such taxation on departure.

The advisors informed the Smiths the CRA would only tax incomes sourced in Canada. These included any bank interest, dividends from Canadian companies, rental income, RRSP or RRIF withdrawals and any periodic pension income.

In all cases, the advisors recommended the Smiths tell the payers about their non-resident status so income would be declared on NR4 slips rather than T5 or T3 slips.

To provide a comfortable income, McIntosh, Burylo and Appleton recommended the Smiths sell their $600,000 home and pay off the $80,000 line of credit. Including their $20,000 in cash savings, they would have $540,000. From this, they invested $140,000 in a secure and liquid savings vehicle, and the remaining $400,000 in a non-registered investment portfolio.

After completing a risk and return profile questionnaire, the portfolio was composed of 10% cash, 25% debt instruments, 40% Canadian blue chip equity and 25% U.S. blue-chip equity. The advisors also suggested the Canadian-registered portfolios be similarly allocated.

Using the estimated return for these portfolios, as well as the registered and government income plans, the advisors were able to model William and Edith's retirement incomes.

In Edith's case, the circumstances would be virtually identical, with a RRIF income of $20,000 per year instead of a pension. Her monthly net income would be approximately $3,780. Choosing non-residency would improve the Smiths' income by $512 per month, per person. That works out to $12,288 for the year.

At the same time, the advisors conducted research on the Smiths' estimated cost of living in Mexico. They presented three scenarios with complete cost breakdowns.

The outcome showed the Smiths would require $2,500 as a minimum monthly income if they planned to rent their home. If they wanted to buy property, they'd need a minimum of $2,215 a month for a comfortable lifestyle and $4,004 a month for a very comfortable lifestyle. Because their estimated monthly family income was $7,500, the Smiths felt confident they could live very comfortably in Mexico. Therefore, they decided to rent property initially while getting to know the local realtors.

The couple updated their Canadian wills and powers of attorney and the advisors also suggested they create a Mexican legacy will to cover their Mexican assets.

Finally, the advisors provided recommendations should the Smiths ever decide to return to Canada permanently. —*Michael Berton*