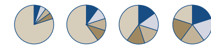
HIGH NET WORTH JOURNAL

An Investment Update

RICHARDSON PARTNERS FINANCIAL LIMITED
FAMILY WEALTH MANAGEMENT

Volume I, Issue VI
November 9, 2006



MCIVER WEALTH MANAGEMENT
CONSULTING GROUP

What's News

By Neil McIver

Trusts:
As you have no doubt heard and read about, the Federal Government announced that it will begin to tax the Income Trust structure. While both Mark Jasayko and Tricia McIver will discuss various aspects of this decision in their columns, I'll provide a brief history behind this issue and discuss what real solutions are available to us.

History:
The trust structure was originally designed to pass income directly to investors from resource extracting companies for internal growth and companies that produced more cash than they needed. The trust structure allowed investors to benefit from the high income while the trust, which had very little left in retained earnings, received a tax deduction for the income paid to trust unit holders. Simply put, the trust paid little or no tax to government.

In time, many companies saw the obvious advantage of converting to the trust structure simply for the tax advantage over their competitors. Many of these companies were not suited for a model which stripped out the vast majority of the company's earnings, normally used to fund future growth. Many CEOs and management teams came under pressure from shareholders to convert to trusts in order to realize a one time gain in share price and to get their hands on the corporate income. Clearly, as the number and size of companies converting to the trust structure grew, the tax base of both the federal and provincial governments became threatened. Action was clearly required.

No Action:
Last year, the previous government attempted to address this growing problem by making a vaguely worded announcement that it was investigating the future use of the trust structure in Canada while Canada Revenue Agency stopped issuing any further preliminary tax rulings to corporations that were planning on converting to the trust structure. The public reaction to this was, as expected, negative and both the market prices for trusts and the poll numbers for the Liberal government fell dramatically. Already in disarray and facing a non-confidence vote, the government blinked and reversed itself, leaving the trust structure intact and the growing problem unresolved.

Decisive Action:
Despite saying that while they would monitor the situation they would not change the tax treatment of trusts before the election, Canada's new government recognized the severity of the problem once they formed government. The magnitude and momentum grew as both of Canada's largest telecom companies recently announced their intention to convert recently. Many believed Canada's banks were soon to follow as the rug began to be pulled out beneath the country's tax structure. In the proposed Tax Fairness Plan the Minister of Finance states that, left unchecked, the resulting decrease in corporate tax revenues would place an unfair and growing tax burden on individuals. Thus the government is trying to once and for all level the playing field by removing the tax incentives for a corporation to convert to a trust.

Investment Solutions:
After the initial drop in value of between 18 to 30% on Wednesday morning, many of the trusts began to recover as investors worked out the potential future value of these investments. While normal market fluctuations will occur, the effect of this tax change has been fully factored into the current market prices. The event is over.

Your asset allocated portfolios have been properly constructed to reduce volatility and manage risk. As such only a portion of your portfolio allocation holds income trusts.

Trusts most at risk are those which have a very high payout ratio (many trusts have payout ratios of 95 - 105% of earnings) and would be hard-pressed to continue those income payments after paying 30% of revenue in taxes. Because we have always carefully selected the trusts in your portfolios, the drop in value of these has been comparably small. In many cases the current prices are above our cost of purchasing the units.

Going forward, some adjustments will be made as we sell weaker trusts and seek income from other areas such as preferred shares, common shares and convertible debentures.

On the Mark

By Mark Jasayko

Income Trust Supernova:
The Canadian news media has been saturated with comments and reactions to the Federal Government's decision to eliminate the incentive for companies to convert from a corporate structure to a trust structure. What has been missing is an overview of the income trust issue from an investment market perspective.

There has been no doubt that the income trust structure had clear advantages for companies and for investors. However, that in itself does not qualify the phenomenon as a revolutionary innovation in investment finance. In fact, if we step back and look at income trusts from a global investment market perspective, they look like a Canadian oddity.

There were good reasons for the trust structure. They were ideal for companies extracting resources from finite reserves. They were also perfect for companies with enormous cash flow that could not possibly be re-invested profitably back into operations. These companies and our economy benefited when the trust model was used. However, in my analysis, only a small fraction of the recent trust conversions made sense. Instead, an overwhelming majority were a one-time exploitation of a tax loophole. In fact, I find it very difficult to recall any corporate officers of companies clamouring to convert to a trust stating that the move would benefit the company in the area of operations. None of them said that it would increase the ability of the company to grow, to take advantage of foreign markets, to expand research & development, to become more competitive, or to become more flexible and versatile in more difficult economic times. The bottom line is that the trust structure does not contribute to the long term health of companies that need to adapt and grow in order to be successful. Weaker publicly-traded companies are detrimental to investment markets.

For the investor, the income trust advocates stated that they were needed because they were ideal for those who needed income-producing investments. However, before the trust mania, preferred shares were popular high-yield investments. No one had any complaints. It was income trusts that crowded out these classic income-producing investments to the point where there are only about two dozen preferred issues left in our country with decent liquidity.

The unfortunate aspect of the legislation is that it hurts the few companies that are tailor-made for the trust structure and the investors in those units. A silver lining might be that Canada's investment market will look more like other global investment markets with traditional corporate structures that create growing, innovative, and competitive companies.

Like a cosmic supernova that grows to the point of briefly outshining its entire host galaxy before exhausting itself to reveal the galaxy once again, when the income trust mania subsides we should be able to gain a clear view of the galaxy of Canadian companies with real long-term potential.

Sincerely Saleena

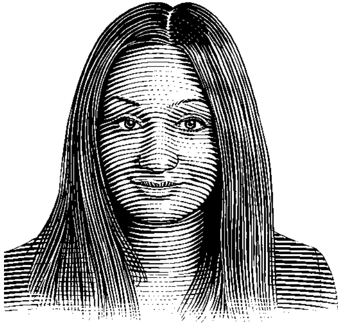
By Saleena Vellani

Deadlines:
The official deadline to contribute to a Registered Education Savings Plan for the 2006 tax year is December 31, 2006 (this day falls on a Sunday so make your contribution by December 29, 2006). Unlike RSPs, you do not have an extra 60 days after the end of the tax year to make your RESP contribution. RESP contribution room that is not used by the annual deadline is lost and cannot be carried forward to future years. However, unused government grant room (the Canadian Education Savings Grant (CESG) can be carried forward until the year the child turns age 17, subject to annual maximums.

If you are required to make quarterly tax instalment payments to the CRA, you should make your final payment on or before December 15, 2006 to avoid late interest charges. If you missed an earlier instalment payment deadline, then you may want to consider making a larger final instalment payment or make your final instalment payment earlier than the December 15, 2006 deadline to minimize late interest charges. We would be happy to pay CRA on your behalf from your accounts held here. Please let us know if you would like us to accomplish this for you and we will arrange the paperwork.

Good Karma

By Karm Bhatti



Year End Tax Loss Selling:
One of the most popular and effective year-end tax planning strategies is tax-loss selling, which will reduce your capital gains. Capital gains are realized through the sale of securities or through capital gain distributions from mutual funds. Half of your net capital gains are taxable at your marginal rate. These capital gains may be off-set with capital losses. However, simply selling a stock to trigger a loss, then buying it back within 30 days is considered a "superficial loss" by CRA, and the loss will be denied. You should consider selling "loss" securities that are outside of our recommended Asset Allocated portfolios and that no longer meet your investment objectives to trigger capital losses.

It is important to consider the timing of the transaction: the transaction must settle before the last business day of the year. Please keep in mind the three day settlement rule.

Transaction	Initiate sale by
Canadian	Dec. 22, 2006
U.S.	Dec. 26, 2006

Preserve and Protect

By Tricia McIver

Since our last Journal was published we have had a number of significant tax changes or proposals announced. Here are three issues that may have a significant impact for you.

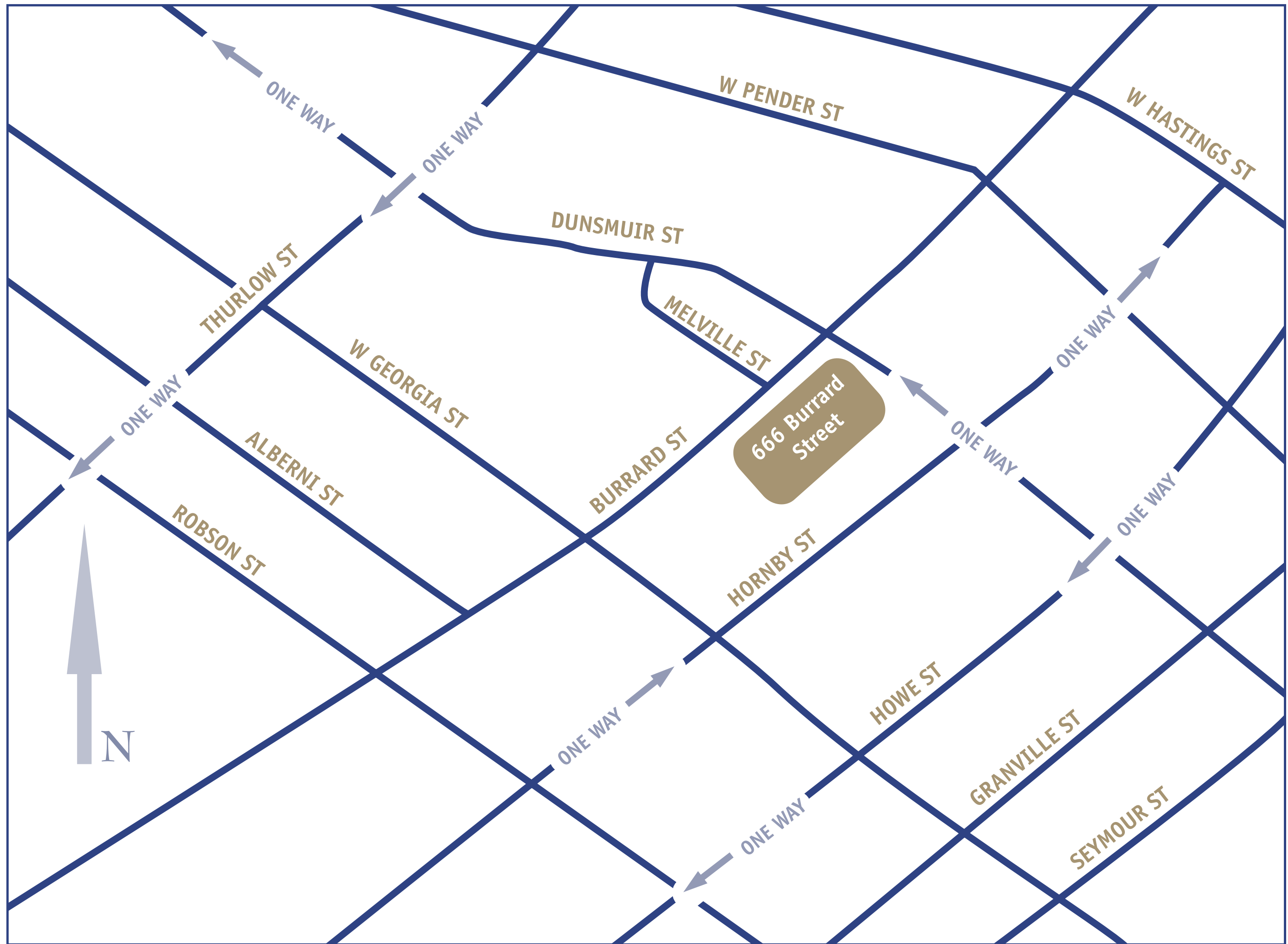
Taxation of Income Trusts:
On October 31, the Federal Government announced proposals that will dramatically affect the taxation of income trusts. The existing legislation allows income trusts to pay out its income to unit holders and claim a deduction for all or a portion of the dollars paid out and avoid paying tax. Unit holders would then pay tax on the income portion of pay outs received at tax rates applicable to ordinary income or capital gains. Not any longer. The new proposals would require that where income pay outs occur, the trust would no longer receive a deduction and that pay out would instead be taxed at the applicable corporate rates. Distributions to unit holders would continue to be taxed in the hands of unit holders, but at the rates applicable to dividends (please see the discussion of dividends below). Existing publicly-traded income trusts will not be subject to the new rules until 2011 while any new income trusts will be subject to the rules in 2007.

"Eligible" Dividends:
To level the playing field between corporations and income trusts, the Federal government reduced personal tax rates on "eligible" dividend income. Recently, British Columbia announced its support of the Federal proposals by also reducing personal tax rates on dividends. In general, "eligible" dividends include dividends received from publicly-traded corporations. Effective for 2006, the top B.C. personal tax rate on eligible dividends has been reduced to 18.5% from 31.6%. This has significant impact on the structuring of income producing portfolios as effective yields on dividend-paying securities such as common and preferred shares are nicely enhanced. Neil and Mark will be reviewing opportunities in this area over the coming months.

Pension Income Splitting - Welcome Tax Relief:
Effective for 2007, retirees will be permitted to split pension income with their Canadian resident spouse or common-law partner. Up to ½ of pension income may be allocated to and taxed in the hands of the spouse or common-law partner. Where an individual is 65 years or older pension income includes lifetime annuity payments under an RPP (pension payments), and payments from DPSPs (deferred profit-sharing plan), RRSPs and RRIFs. Where an individual is under 65, only lifetime annuity payments from an RPP and certain other payments received as a result of the death of the individual's spouse or common-law partner will qualify. This will be welcome relief to many pensioners. Caution must be taken however to ensure that allocations of income do not have adverse economic effects on the retiree and his/her spouse such as a reduction or elimination any government benefits or increases in medical costs (i.e. care facility) that are based on an income means test.

Please do not hesitate to contact me by phone or e-mail should you have any questions regarding these changes.

Visit Us in Person or Online!



RICHARDSON PARTNERS FINANCIAL LIMITED
Park Place ▪ 666 Burrard Street, Suite 1800 ▪ Vancouver, British Columbia ▪ V6C 2X8
Toll Free: 1 (866) 364-7735 ▪ Phone: (604) 678-6561 ▪ Fax: (604) 678-6640
www.mciverwealth.com

Neil R. McIver	Investment Advisor	(604) 678-6561	neil.mciver@rpfl.com
Mark Jasayko, MBA, CFA	Portfolio Analyst	(604) 678-6562	mark.jasayko@rpfl.com
Karm Bhatti	Associate Assistant	(604) 678-6563	karm.bhatti@rpfl.com
Saleena Vellani, BA	Associate Assistant	(604) 678-6564	saleena.vellani@rpfl.com
Tricia McIver, CA, CFP, TEP	Tax & Estate Planning Consultant	(604) 678-6565	tricia.mciver@rpfl.com

Richardson Partners Financial Limited is a member of CIPF.