

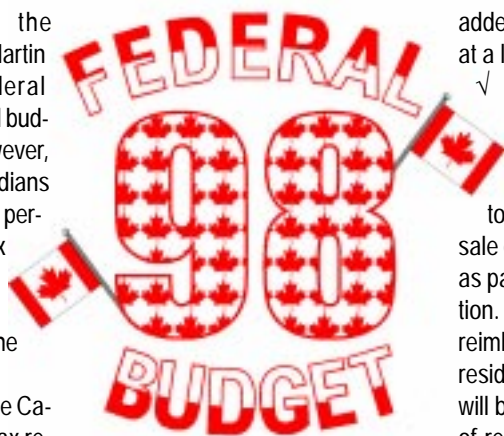
On February 24, the honourable Paul Martin delivered the Federal Government's first balanced budget in almost 30 years. However, tax relief to overtaxed Canadians was very mild at best. While personal and corporate tax rates remained unchanged, Mr. Martin enhanced a few credits and deductions on the personal tax level.

Low and middle-income Canadians will receive some tax relief for 1998 and subsequent years as follows:

- √ The 3% general federal surtax will be eliminated for individuals earning up to about \$50,000 and reduced for those earning between \$50,000 and \$65,000.
- √ The basic personal exemption, married exemption and equivalent to spouse exemptions will be increased by a \$500 supplement to the present amount the credit is calculated on. The benefit will assist single individuals with incomes under \$20,000, and individuals with a dependent whose income is under \$40,000.

Other personal tax measures introduced to assist all or many Canadians are:

- √ For 1998 and subsequent years, the maximum child care expense deduction that may be claimed will be (1) \$7,000 for each eligible child under the age of 7 at the end of the year, or in respect of whom a disability credit has been claimed, and (2) \$4,000 for each eligible child over age 7 and under age 16 at the end of the year, or who is not eligible for the \$7,000 deduction, but has a mental or physical infirmity.
- √ A new caregiver credit of up to \$400 for 1998 and subsequent



years will be given to individuals residing with and providing in-home care for a parent or grandparent 65 years of age or over, or an infirm dependent relative. The credit amount will be reduced by the dependent's net income in excess of \$11,500.

- √ The RRSP home buyer's plan is being extended so that certain individuals with disabilities and persons related to them may withdraw funds from their RRSP to buy a home that is better suited for the care of the disabled individual.

- √ Self-employed individuals will be able to deduct premiums and contributions to a private health services plan effective in 1998. This also includes premiums paid for coverage of the spouse and children of the proprietor. The plan must be set up with an insurance or trust company.

- √ The moving expense deduction will be enhanced commencing in 1998. Deductible moving expenses will now include certain costs of maintaining a vacant former residence, including interest and property taxes. The deductible amount will be limited to \$5,000. Additional moving expenses will also be

added to the list to be determined at a later date.

- √ In conjunction with moving expenses, an employer will now be able to reimburse an employee, tax free, up to \$15,000 for the loss on the sale of the employee's residence as part of the employee's relocation. In addition, only 1/2 of any reimbursement on the loss of the residence in excess of \$15,000 will be taxed. Finally, as a result of recent tax cases, the law will be amended to tax any reimbursements by an employer, in the course of an employee's move, in respect of financing a new residence. Further, if interest free or low interest housing loans are provided by the employer to the employee as a result of employment, a taxable benefit will be added to the employee's income. This last measure is effective for loans made after February 23, 1998.

- √ RRSP contributions and rollovers of severance pay into an RRSP will no longer be subject to alternative minimum tax. This change is retroactive to 1994.

- √ Registered education savings plans are being enhanced again. Starting immediately, the government will provide a 20% grant on the first \$2,000 of annual contributions to an R.E.S.P. for children up to age 18. The maximum annual grant is \$400 per child. Missed contributions can be caught up in later years and the maximum annual grant in a catchup year would be \$800. The grant and investment income generated will be paid to the student while enrolled in post-secondary education programs. If

(See "Budget 98" on back)



Advanced Marketing Techniques

A few months ago, I attended a marketing seminar put on by Duncan MacPherson. He discussed some interesting strategies to assist entrepreneurs in marketing their products or services. With his permission, I would like to relay some of those points to our readers.

Be aware of the hierarchy of people you market to. In order of importance they are:

Advocate: Not only do these people use your services exclusively, but they recommend you to others.

Client: A client uses your services exclusively, but does not recommend you to others.

Customer: They buy from you, but also buy from your competitors.

Prospects: These are potential customers. They have contacted you (through an advertisement or recommended by an advocate) with regards to the product or services you offer.

Suspects: They do not know of you or have ever contacted you. Usually are part of a target market you would like to penetrate.

Studies show that far too many businesses concentrate their marketing efforts on suspects, hoping to move them up the lad-

(See "Marketing" on back)

(“Budget 98” continued)

the RESP beneficiary does not attend a post-secondary school, the grant must be repaid.

√ Commencing in 1999, individuals will be permitted to withdraw up to \$10,000 from their RRSP, tax-free, to finance full time education for themselves or their spouses. The maximum amount withdrawn over a 4 year period is limited to \$20,000. Withdrawals must be repaid over a 10 year period commencing in the 5th year following the first withdrawal.

√ Starting in 1998, individuals repaying student loans can claim a nonrefundable tax credit of 17% on the interest portion of the annual loan payments.

√ Part time students will now be able to claim the education credit and those part time students with children will be able to

deduct child care expenses.

√ An employment insurance holiday will be offered to employers on wages paid to employees aged 18 to 24 hired in 1999 or 2000.

√ Employers and employees paying for meals and entertainment at remote work sites are exempt from the 50% deduction rule. The government is further assisting them by reducing the remote work site criteria from 80 km from the nearest community of 1,000 people to 30 km from the nearest community of 40,000 people.

The government has also tweaked some rules to ensure undo benefits are not obtained.

√ In its never ending fight against the underground economy, starting in 1997 all Federal Government agencies will be issuing information slips for pay-

ments made for construction services. The government will be consulting with construction industry officials regarding mandatory reporting requirements.

√ Nonresidents will no longer be allowed to apply Canadian tax losses, that are treaty exempt, against Canadian taxable income.

√ Foreign tax credits will no longer include exempt foreign income.

√ Nonresident corporations exempt from Canadian tax under treaty will now have to file an information return.

√ The GST visitor's rebate program will be enhanced to allow foreign conventions held after February 24, 1998 in Canada (75% of participants are nonresidents) to claim 50% of the GST paid on food and beverages as a rebate.

(“Marketing” continued)


der into prospects and eventually customers. A far better return on your marketing dollar is obtained by concentrating your efforts on clients and advocates. Why? For most businesses, customer referrals from existing clients and advocates are their best source of new business. A referral from these sources almost immediately becomes a customer and tends to quickly move up the ladder to become a client. Obtaining referrals can be as easy as simply letting your clients and advocates know you are looking for new business.


What are the secrets to keeping clients and turning them into advocates? It's more common sense than anything else. The obvious way is to do quality work on a timely basis, bringing value to your client's business. Less obvious, but almost as important, is having an in-depth knowledge of your clients; *'building a wall around them.'* Know their likes and dislikes, their family members, their hobbies and recreation activities, things that are important to them. Thank them for referrals personally, send tokens of your appreciation.


Does this mean businesses should ignore the direct marketing of suspects and prospects? Of course not. Turning suspects and prospects into customers is an important element in the success of any business. What are the secrets for obtaining a higher success rate?

First and foremost, use 'target marketing' instead of 'broadcasting'. Identify the market you want to pursue and become a specialist in it. Find the areas you can build momentum on.

Be repetitious and persistent on pursuing your target market. Don't expect a single marketing activity aimed at your target market to net you a large number of new customers. A coordinated group of marketing efforts will offer positive results if you remain patient.


 Try and hold your fixed income investments in your RRSP and your equity investments outside your RRSP. Studies have shown a portfolio would gain 1% a year from this efficiency.

 Reasonable car allowances paid by an employer to employees for 1998 are 35¢ for the first 5,000 km and 29¢ for each additional km travelled in the year.

 The Chop tax case highlights innocent bookkeeping errors vs. deliberate ones. The taxpayer's daughter was doing part time bookkeeping for his business. She mistakenly charged a legal bill on the sale of the taxpayer's house as a busi-

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ness legal expense instead of against his shareholder's loan account. Revenue Canada discovered the error on a tax audit. The Tax Department followed their standard practice when finding personal expenses charged as a business expense: disallow the deduction to the corporation and assess the shareholder a taxable benefit, thus creating double tax. The taxpayer successfully argued in tax court that this was an innocent error and not a deliberate one. The corporation was allowed to correct its books for the error, saving itself and the shareholder from double taxation.

 Rental loss deductibility was revisited in the McPherson tax case. A condominium investment was bought for resale in 1986. By the time it was built, the real estate market downturned and the taxpayer rented out the unit in 1990, 1991 and 1992 incurring rental losses before sale in 1992. Revenue Canada disallowed the rental losses citing no expectation of profit. The taxpayer countered that the intention was to earn income on the condominium's resale and not to earn rental income. The court found that rental losses were deductible when the intention was to earn a profit from the property's resale. Said rental losses were added to the cost of the property and deducted when the property was sold.

NOTICE TO READER

Rich Rotstein publishes this newsletter to inform readers of current developments in numerous areas. It is neither a definitive analysis of any law, nor a substitute for professional advice.



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to our clients
for your referrals
and continued
support