Numekevor & ASSOCIATES INC.
NewsForum

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Way-Mar Inc.
Way More Than Windows

Wayne Martin and Bob Shantz in their Wallenstein showroom

Home renovation company Way-Mar Inc. has been beautifying homes in the Waterloo Region and surrounding area since the beginning of operations in January 1973. Wayne Martin, after which the company was named, started Way-Mar Inc. by himself and had two employees until 1975. At which time, he expanded to bring on several partners. Way-Mar Inc. now has two major shareholders, Wayne Martin and Bob Shantz, who work with three other shareholders and 35 employees.

Before Way-Mar Inc., Wayne and Bob both worked for Menno S. Martin Contractors (no relation), another home renovation company in the area. Wayne's desire to strike out on his own and work for himself was prompted by a work related injury. Wayne set out to do sales and eight months later started his own home renovation company. Wayne's previous experience in home renovations and his formal education as a certified carpenter allowed him to take on an administrative role in his own business. Bob, senior partner of Way-Mar Inc. today, jokes that the "School of Hard Knocks" prepared him for his current role within the company.

While Way-Mar Inc. services residential, commercial and industrial markets, 80% of their business lies in the residential area. Though Way-Mar Inc. does some new home construction projects, most of their contracts involve renovation work for individual home owners, specifically windows and doors. When asked why Wayne and Bob have chosen to focus their attention on the residential market, we were told that the residential sector requires a different set of skills and equipment than is needed for the steel and concrete work involved in commercial and industrial renovations. Bob plans to continue the management of Way-Mar Inc. in five years upon Wayne's retirement, but he doesn't plan on changing how the company is run. Quality service for a fair dollar will continue to be his mantra. The residential market will continue to be their focus; however, the scope of work may change to meeting changing needs and availability of new products. Although thinking of retiring, Wayne has not slowed down any. Both Wayne and Bob put in full days and long hours. It is not uncommon for them to work 10-12 hour days, 5 or 6 days a week.

Both Wayne and Bob are heavily involved in church activities and volunteer services. Bob has been involved in Habitat for Humanity. Wayne plans on devoting more time to volunteer work in his retirement years. For now, Wayne is involved with Ray of Hope, which provides housing for young offenders and a ministry to street people. He is also actively involved in the community in which he lives, serving with the Elmira District Association for Community Living. When not devoting their time to community involvement, both Wayne and Bob enjoy traveling with their families.

Wayne and Bob have these words of wisdom for anyone interested in going into business for themselves: Observe the golden rule … treat others the way you want to be treated. Beyond that, be honest and willing to provide quality service.

Summer is here. If you have been thinking of adding that deck or installing new windows in preparation for a colder season, check out the company's portfolio of finished projects. Way-Mar Inc. can be found at www.waymar.on.ca <http://www.waymar.on.ca> or you can visit their showroom at 3585 Ament Line, Wallenstein.

By: Pam Lucier
Final Draft Publications

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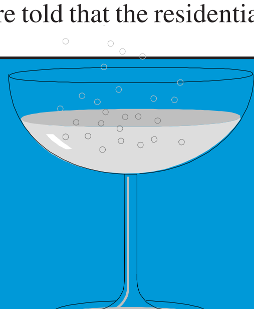


TAX AND ESTATE MATTERS

Income Splitting Opportunities: Strategies to Minimize Taxes

Income splitting is the loaning or transferring of money to a lower income person (for example, a spouse, common-law partner, or child) so that the income or gains from investing the money are taxed at a lower rate, decreasing the overall tax burden on the family.

While income attribution rules eliminate most opportunities for income splitting, there are still a few strategies left for income splitting within a family.

Attribution between spouses or common-law partners

The tax rules state that where an individual has transferred or loaned property to the individual's spouse or common-law partner, any income or loss from the property - and any capital gain or loss on the disposition of the property - will be attributed back to the transferor's spouse or partner.

This means that even though the spouse or partner is now receiving the income, the transferor's spouse or partner still pays the tax on it at his or her marginal tax rate. The family is therefore no better off than if the transfer or loan had not been made. Income on property transferred or loaned to a related minor child is attributed back to the transferor or lender. This rule only applies if the child is under 18 at the end of the year. It generally does not apply to capital gains or losses on disposition of the property by the minor child. Loans for non-investment purposes, such as to pay tuition fees, are not covered by this attribution rule because no income is earned on these loaned funds.

Capital gains and children

Attribution does not apply to capital gains earned on the disposition of property by a child. So, it could be advantageous to loan or transfer funds to a child to invest in assets such equity mutual funds that tend to generate primarily capital gains. This will minimize the income attribution to the lender or transferor and ensure that the gains earned are taxed in the child's hands.

Income on income (secondary income)

The attribution rules apply to income from property that is transferred or loaned. If this income is reinvested by the transferee or borrower, it will earn a secondary stream of income. This "secondary income" is not attributed back to the transferor or lender because it is not income from the transferred property. It will be taxed in the transferee's or borrower's hands.

It can, therefore, be advantageous to loan or transfer property to a spouse, partner, or minor and allow the income attribution to occur on the income from the original investment. That income can then be removed from the account and invested elsewhere, where it continues to earn a secondary stream of income on which no attribution occurs. This secondary income is taxed in the hands of a lower income family member. Of course, for this to work, the loan or transfer must be legally effective. With this type of arrangement, the key is to maintain two accounts so that attributed income and non-attributed income can be tracked separately.

Loan for value/transfers market value

If an individual makes a loan to a spouse, partner, or child, which the Spouse, partner, or child uses to invest, and interest is charged on the loan at a rate at least equal to the Canada Custom & Revenue Agency's prescribed interest rate (three percent for the first quarter of 2002), the attribution rules will not apply. The interest, however, must be paid each year or within 30 days after the end of the year for the attribution rules not to apply. If a deadline for the interest to be paid is ever missed, that year's income and all future years' income will be attributed back to the lending individual. If an individual transfers property at fair market value to a spouse, partner, or related minor child (and reports any resulting gain thereon), and receives back from the spouse, partner, or child, cash or property of equal fair market value as consideration, the attribution rules will also not apply. If the property is given to a spouse or partner, the spouse or partner would have to elect out of the automatic rollover, which generally deems the transfer to occur at cost.

It may sometimes make sense to transfer property at fair market value or loan funds and charge interest on the loan if an excess yield or capital gain can be earned. This avoids the attribution and, at the same time, puts a high yield asset in the hands of a lower taxed individual. The difference between the yield and the interest charged, or the future capital gain over the fair market value transfer price, will be taxed at a lower rate. The drawback is that any interest charged on the loan is treated as taxable interest income to the lender. With the current prescribed rate of three percent, the lowest in 15 years, this strategy makes more sense now than ever.

Payment of expenses and taxes for lower income family members

One of the easiest ways to split some income is for the high income earner to pay all of the family's daily living expenses. This leaves more income in the hands of the lower income earners to invest, thereby increasing their investment income, taxed at lower rates. Payments of taxes on behalf of other family members also fall into this category. These payments will not attract attribution since they are not invested (the payment goes to the government), and therefore there is no income that can be attributed back.

Jamie Golombek, CA, CPA, CFP, TEP
Vice President, AIM Funds Management Inc.
This article first appeared in the February 2002 FORUM magazine of the Canadian Association of Insurance and Financial Advisors (CAIFA) and has been adapted for this newsletter.

Spouse or Partner			
Income	Attributed to "gifter"	Attributed to lender	No attribution
Capital gains	Attributed to "gifter"	Attributed to lender	No attribution
Second-generation income	No attribution	No attribution	No attribution
Child under 18			
Income	Attributed to "gifter"	Attributed to lender	No attribution
Capital gains	No attribution	No attribution	No attribution
Second-generation income	No attribution	No attribution	No attribution
Child over 18			
Income	No attribution	No attribution*	No attribution
Capital gains	No attribution	No attribution*	No attribution

* *Provided main reason for making loan was not to reduce or avoid tax of the lender*

LIFE INSURANCE TRUSTS AND BENEFICIARY DESIGNATION

A unique feature of a life insurance plan is the ability to direct that the payment of the proceeds be made to a named beneficiary. This action of naming a beneficiary provides many benefits for the policyholder. Creditor protection of the cash values can be achieved if the named beneficiary is within the prescribed class of related beneficiaries. With a named beneficiary, the funds from the life insurance benefit do not pass through the insured's estate, and therefore are not exposed to the creditors of the estate, are not subject to probate fees, and are not open to public scrutiny.

There are, however, circumstances under which it would not be appropriate to name a certain individual as the beneficiary of the insurance policy.

For example, the couple could name the children as contingent beneficiaries. However, the insurance benefit cannot be paid directly to a minor. Where minor children are directly named as beneficiaries, the insurance company is compelled to pay the life insurance proceeds into court, which, in turn, will give the money to the public trustee to administer on behalf of the minor(s). This means that the investments from the insurance proceeds will be based on the provincial public trustee act and the money will be turned over to the minor(s) upon attaining the age of majority. This may be a much younger age than the parents would have wanted.

The situation outlined above could be better handled with the use of an **Insurance Trust**. A trust could be set up today to own insurance policies on the life of each parent. Alternatively, the trust could hold a policy on both lives, with proceeds payable on the second death. The wife and husband could settle **(set aside)** money sufficient to pay the life insurance premiums in the trust annually. Upon the premature death of either spouse (or on the second death, if applicable) the life insurance benefit would be paid to the trust. The trustee would be empowered to hold and invest the money based on the instructions within the trust document. The trust document would also set out the distribution plan for the annual income, along with directions as to who would have access to the capital.

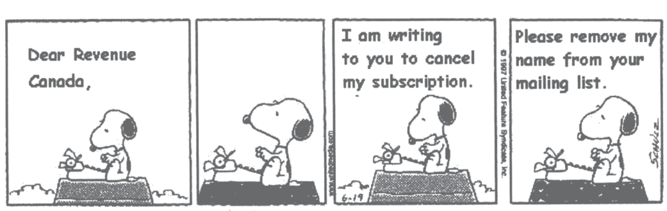
Consider the situation where a wife and husband named each other as beneficiaries of their respective insurance policies, but also want to plan for the flow of the policy proceeds in the event of a common disaster **(dying together in an accident)**. In such a case, the couple wants to ensure that the funds flow to the benefit of their minor children to provide important financial protection. While the funds could pass through the estate, the couple is worried about potential creditors or estate litigants, exposure to probate fees, and the loss of privacy associated with probated wills, which are public documents. Cash value from the creditors of the wife and husband, avoid probate fees, keep the money private, allow broader investment powers, and restrict access to income and/ or capital.

The trust described above would be an inter vivos trust **(trust in effect while living)**, and as such it would be taxed at the top personal income tax rate with no benefit of marginal tax rates. To avoid this problem, an insurance trust could be created by way of beneficiary designation provided in a will; it would then qualify as a testamentary trust **(trust in effect after death)** that is taxed on the marginal tax rate system, the same as individuals.

The will could set up the XYZ trust, naming the appropriate trustees. **The insurance policy could then name the trustees for the XYZ trust as beneficiaries of the insurance proceeds.** In this fashion, a trust is created by the will to receive the life insurance proceeds. **Even though this trust is established by wording in the will, the proceeds do not form part of the estate, and most of the same benefits will be available as apply to any beneficiary designation.**

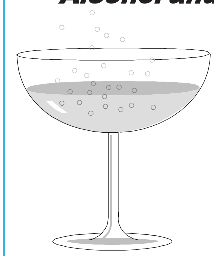
Therefore, the proceeds will not be subject to probate fees or to creditors of the deceased. If the will is probated, however, the terms of the trust will be contained in a public document. Planning involves reviewing objectives and looking for those strategies that will accomplish the stated objective with the fewest number of contentious issues.

This article was previously published in the January/February 2002 issue of COMMENT, a newsletter published by Canadian Association of Insurance and Financial Advisors.



Health Clinic

Alcohol and Your Health



The use and the enjoyment of alcoholic beverages are well accepted and entrenched in our society. The vast majority enjoys these products without harm, but, for others, it is a poison. A keen and curious observer might well wonder about the roles that alcoholic beverages play for each individual. How often individuals drinks and how much they drink at a time has a direct effect on their health.

The following are some effects of alcohol on the human brain and body:

Short Term Effects:

- Slowing down of reflexes and mental processes (reaction time)
- Attitude changes, increased risk – taken to the point of poor judgement and danger
- Impaired co-ordination and thinking
- Staggering, confusion and drowsiness
- Initial relaxation
- Loss of inhibitions
- Increased effects when combined with other drugs
- Overdose may lead to death due to respiratory depression.
- Slurred speech, double vision

Hangover Effects:

- Headache, Nausea, shakiness, vomiting

Long-Term Effects:

- Tolerance and dependency develops
- Regular heavy use increases the possibility of: gastritis, Pancreatitis, heart disease, cirrhosis of the liver, hypoglycemia (low blood sugar)
- Malnutrition
- Loss of memory and mental confusion
- Upon withdrawal of heavy use, convulsions and delirium may occur
- Birth defects on children when used by pregnant women
- Interference with immunity system leads to higher incidents of pneumonia

Christiana Bola Ashabo, ICADC, CRPS, is an Addiction and Relapse Prevention Specialist with The Southdown Institute in Aurora

President's Corner

The Corporate Estate Transfer: Unlocking Trapped Surplus

Each year many Canadian Corporations take advantage of the small business deduction on the first $200,000 of corporate income. In many cases, the first $200,000 of income, which was taxed at a very low rate, ends up being parked in a holding company, "Holdco." This is done to protect the retained earnings from creditors of an operating company and to preserve the small business status, from a tax viewpoint, of the operating company. The transfer to Holdco is made possible because dividends between Canadian corporations are generally tax-free. Although many business owners would like to take the money in Holdco for personal use, they are reluctant to do so because of the severe tax consequences of moving the funds out of Holdco.

The following example is from a business owner client, Mr. Zokpata (not his real name) who we recently helped.

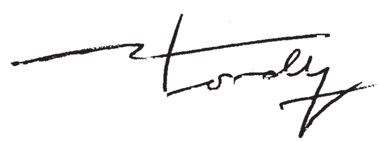
Mr. Zokpata had $500,000 trapped in Holdco, which was earning very low interest. Even though he wanted to grow the funds and leave them and the other assets in Holdco to his family on his death, several things were becoming increasingly clear to him. First, the interest earnings were abysmally low in today's fixed income markets. Furthermore, the income also attracted very high corporate tax of approximately 42%. Under these circumstances, his objectives were not being met. At the same time, Mr. Zokpata realized that withdrawing the money as taxable dividends for personal use would cost him $160,000 in income taxes at the approximately 32% rate currently charged on dividends. He would only be left with $340,000!

This is how we helped Mr. Zokpata invest the trapped surplus. Because his operating company can easily support his lifestyle, he agreed to transfer $450,000 of the money into a tax deferred account, namely a universal life insurance contract. The result was that his estate value multiplied exponentially through this risk management product. Mr. Zokpata also reduced his potential capital gains on the deemed disposition of his shares at death by converting cash (which is fully reflected in the value of the shares) into a life insurance death benefit, which is only reflected in the share value to the extent that there is a cash surrender value in the policy. A significant portion of the income was converted into a life insurance death benefit, which, with the use of some special provisions in the Income Tax Act, will allow him to pass the money on to his family upon his death, at a tax-free or nearly tax-free basis.

So by taking advantage of the various provisions in the Income Tax Act, we were able to help this business owner greatly enhance his estate, while reducing capital gains liability and investing in a tax-deferred environment. Please do not hesitate to give us a call at Numekevor and Associates if we can be of assistance to you or to someone you know.

Have a great summer and remember ...

> The only obstacle between where you are today and where you want to go is YOU



About the Company

Need help through the insurance planning maze? We at Numekevor & Associates can help your company through business succession planning, disability and health risk management, creative group benefit plan design, and individual estate creation and preservation ideas. We can be reached at 519 621-4422, 1-800-964-8797, or at email@numassoc.com

About the newsletter

This newsletter belongs to our clients. We at Numekevor & Associates hope that **NewsForum** will foster an opportunity for discussion which will enrich your business and family lives. Publication dates are January 1 and July 1. We welcome submissions from our readers in the form of original articles, photos, or original artwork. Submission deadlines are the last week of November and the last week of May. Submissions may be typewritten, supplied on disk (saved as a RTF file, please), sent via E-mail to numassoc@golden.net, sent via Canada Post, or sent to the office at 193 Pinebush Rd. Suite 200, Cambridge, Ontario, N1R 7H8. We reserve the right to edit articles for length and clarity.

What's New

We are growing

Atsupe Numekevor has joined company as my Executive Assistant. Atsupe (pronounced, A-chu-pe) is a graduate of the prestigious Conestoga College Business Administration program. Previously, she worked with one of the largest financial institutions in the country. Atsupe will be responsible for customer service and sales. To this end, she is currently undergoing extensive training in our corporate philosophy, "Treating you, our clients, as if the world revolves around you." Atsupe has this to say about working here, "I joined Numekevor & Associates, one of the leading Corporate Insurance Specialists in the country, because I wanted a challenging career in customer service and sales. I decided to work with my father because he is very knowledgeable and sincere, and cares deeply about his client as he considers them as part of his family." With the phenomenal growth we have been experiencing in our business in the last couple of years we can really use Atsupe's helping hands. Atsupe will be in the office from 8:30 am to 4:30 pm Monday through Thursday.

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