Leith Wheeler INVESTMENT COUNSEL LTD.

PLANNING MATTERS

First Quarter 2010

There have been some recent decisions and changes surrounding the Federal and Provincial taxes charged on the costs of investment management and we would like to provide as much clarity as possible on these emerging developments. We have also summarized the adjustments made in the first year of the Tax Free Savings Account (TFSA) program.

GST/ HST on Investment Management Fees Update

On December 14, 2009, the Department of Finance announced its intention to propose legislative amendments that support their position that discretionary investment management services are subject to Goods and Services Tax (GST) and where applicable, the Harmonized Sales Tax (HST). These proposals effectively resolve the uncertainty created by a prior court decision (CMPA case) and eliminate any likelihood of the Canada Revenue Agency paying any outstanding claims for rebates of tax paid based on that decision.

Now that the Department of Finance has clarified its position on the applicability of GST on investment management fees, investors should be aware of the impact the proposed harmonization of GST/HST will have on their investments. Specifically, Ontario and British Columbia have announced that they will be joining New Brunswick, Newfoundland, Nova Scotia and Quebec in harmonizing with the GST. Under harmonization, British Columbia and Ontario will repeal their respective provincial sales taxes and the GST/HST rate in those provinces will increase to 12% and 13% respectively, effective July 1, 2010.

Under current legislation, GST/HST is determined based on where the majority of the service is performed. These rules are known as the "place of supply rules". Therefore, as it stands, Leith Wheeler would be required to charge 12% GST on our investment management fees because the majority of our services are currently performed in British Columbia.

At this point in time, it is too early to speculate what all this will look like by July 1, 2010. We understand that there will likely be changes to these rules such that it is possible that the place of supply rules will be based on where the client is a resident, or uses the services, rather than where the services are performed. Given these changes, clients residing in a province that has implemented HST will end up paying the combined GST/HST. For clients residing in a non-HST province or territory, if the rules are amended, we will make adjustments to reflect the applicable GST rate.

We will continue to monitor the situation and will do whatever we can to ensure our clients are treated in the fairest manner. This may mean adding an additional series to our Funds for HST provinces and non-HST provinces, or adjustments to applicable invoices. In the end, we believe that the amount of GST or HST you pay will ultimately depend on where you reside. This would be more consistent with many other taxes paid. When there is more clarity, some planning by your tax professional may be required. We will make efforts to keep you informed of relevant changes.

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TFSA Update

2010 marks the second year that the TFSA has been an investment option for eligible Canadians. There have been a few changes and issues that have arisen that you should be aware of.

1. Beneficiary Designation: In most provinces, you can now name a beneficiary on your TFSA. When these accounts were first introduced, the only option was to name a "Successor Holder" which had to be your spouse. If you did not have a spouse, the assets in the TFSA would become part of your estate upon your death and would be subject to probate fees. Now, you have the option to name a beneficiary other than your spouse (i.e. your children or someone else), and upon death, the proceeds of the TFSA can be transferred directly to the beneficiary, bypassing your estate and avoiding probate fees.

2. Contribution Limit in 2010: The contribution limit for 2010 is $5,000. If you did not open a TFSA account in 2009, you may be eligible to contribute $10,000 in 2010. You do not need to have a TFSA account open for your contribution room to accrue. If you do not open an account this year, similar to RSPs, you do not lose your contribution allowance. It accumulates and can be used at any time. However, keep in mind that the earlier you contribute, the sooner you will benefit from tax-sheltered growth.

TFSAs are a good option for many clients to shelter investment income and should be part of your overall investment strategy. Although they do not reduce tax like RSP accounts upon contribution, they offer tax sheltered growth and flexibility that is not available with RSPs. TFSAs do not attract income tax when money is removed and they do not have a wind up or conversion age (unlike RSPs) so they can continue to provide tax sheltered growth throughout your retirement. Although TFSAs may seem like a small or insignificant part of your portfolio now, they will grow into a more meaningful component over time.

Please contact your Portfolio Manager or Advisor if you have questions about opening a TFSA account or your Leith Wheeler portfolio. Unlike many other institutions, we do not charge an administrative fee on TFSA accounts for our clients.

2010 Olympics

As the host city for the 2010 Olympics, there will be many constraints on the regular day to day activities in Vancouver in February. Located in the downtown core, Leith Wheeler's office will be fully staffed and open for its regular business hours throughout the Olympics. Given that projected transit, travel times and parking constraints will be much longer, it is advisable to schedule meetings in our office outside of the February 12-28 period.

Go Canada Go!

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