

BUSINESS

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Be careful putting investments in both names

Putting an investment or other asset into joint names can have unexpected — and possibly undesirable — tax results. It all depends on why you are making the change.

C.S. and his parents want to simplify management of their property and minimize both probate costs and also possible taxes at death.

"My parents, who are in their 80s, would like my name to be added to the ownership of their home," writes C.S. "They have an up-to-date will, of which I am executor and beneficiary, but they are concerned with present or future estate taxes.

"I own my own home but am concerned that if my name is added to my parents' ownership I will end up paying capital gains.

"Is this correct? Would I have to live in the home for six months to avoid this problem? What is the

best solution to this situation without incurring taxes?

"The questions are simple but the answers most likely are not."

How true. On the surface, it does seem fairly basic. You add your name to provide joint ownership of a home or perhaps a bank account.

On the account you can then write a cheque to pay a bill, for example, if your parent (spouse, sibling, etc.) is away or otherwise unable to deal with the matter.

And on all assets when one joint tenant dies his or her interest automatically passes outside the estate to the remaining joint tenant(s).

But if C.S.'s parents add his name to ownership of their home, Revenue Canada might consider this a gift of one-third of the value of the home.

"Legal ownership and beneficial ownership aren't necessarily related," said David Thompson, of

YOUR MONEY

by Mike Grenby



Thorsteinssons, tax lawyers. "The Income Tax Act imposes tax based only on beneficial ownership.

"If an individual is added to the legal title of real property where it is clear he or she doesn't have any beneficial ownership, then there are no income tax consequences, though there may be other costs involved in the transfer.

"Revenue Canada's policy suggests a declaration should be made in writing at the time of the transfer to reflect this — that is, stating

the individual holds legal title on behalf of the owners.

"On the other hand, if somebody receives a beneficial interest in property, regardless of whether or not the title is changed, that normally results in a taxable disposition — even if the beneficial interest was a gift. The main exception is a transfer between spouses, where you can choose whether to trigger or defer the tax."

If C.S. acquired a beneficial (not

just a legal) interest in the property, there would be no immediate tax cost if the parents were simply disposing of one-third of their principal residence.

But the tax clock would start ticking for C.S. He already has his own principal residence so the share in his parents' place would be a capital property and any profit he realizes would be taxed.

When dad dies, his share passes equally to mum and C.S. Now the tax clock is ticking even more loudly for C.S., whose investment property share has increased. When mum dies, the whole place belongs to C.S.

If he then sells the place, he'll be taxed on the increases in his share of the property value following three events: the addition of his name as joint tenant, dad's death and mum's death.

C.S. could defer reporting the capital gain if he moved into his

parents' place and it became his principal residence. There's no minimum occupancy requirement as he's supposed to declare his profit whenever he sells the place. However, he could not use his principal residence deduction for the property for the years in which he didn't live there.

But all these tax consequences can be avoided with the appropriate written declaration supporting the intention to transfer only a legal interest.

"In this case — that is, if C.S. didn't acquire a beneficial interest in the property when his name was added to the title — the full gain would qualify for the parents' principal residence deduction," Thompson said.

"C.S. would acquire a beneficial interest in the property when the last parent died. His cost of the property for tax purposes would be its fair market value at that time."

Stocks good for kids' education

by MURRAY OXBLY
Canadian Press

The cost of a university education may be skyrocketing, but three-year-old Christian Vicere is depending on a portfolio of stocks and equity mutual funds to keep pace.

Christian's investments are relatively high-risk, but they should grow quite nicely over the next 15 years, says father Angelo Vicere, a branch manager at AIC Investment Planning in Hamilton.

"Kids can get into the riskiest things because their time horizon is so long," Vicere says. "That's the key."

As a group, stocks outperform virtually all other investments over the long haul, making them ideal for saving for a child's education, Vicere says.

Christian will need all the help he can get.

The Canadian Scholarship Trust Foundation says the average cost of attending university last year was \$8,500, including room and board, and it estimates that could rise to \$24,000 a year by 2010.

An organized savings plan is one way of ensuring there will be money to help finance junior's diploma. And there are two ways to go — a registered education savings plan (RESP), and a non-registered plan, perhaps like Vicere's.

The big advantage to an RESP is that interest accumulates inside the plan without being taxed. (Contributions to an RESP are not tax-deductible, though.)

The interest is taxed when it's withdrawn by the student. But most students won't pay much tax on the money because of their low income and the breaks they receive.

The major drawback of an RESP is that the interest must be used for educational purposes only. If the child decides not to take post-secondary courses, only the principal — the total amount contributed to the RESP — is returned.

"There's an element of risk or gamble in those plans," says David Gillians, manager of market development with Royal Trust in Kitchener, Ont.

However, most RESPs can be transferred to another person, with some restrictions.

The federal government also limits the amount of money that can be contributed to an RESP to \$1,500 a year and \$31,500 in total per beneficiary or student.

There are two general types of RESPs — pooled or "scholarship" plans, and those offered by trust and mutual fund companies.

At Royal Trust, for example, the RESP investor picks one or more Royal Trust mutual funds. The amount of money the beneficiary eventually withdraws is determined by the size of the contribution and its returns, Gillians says.

The process is much more complex at the pooled plans, which include the Canadian Scholarship Trust Foundation and the Heritage Scholarship Trust Foundation.

The benefits from these plans can vary widely. In general, someone who has been enrolled since infancy and who takes four years of post-secondary courses will benefit the most.

The investor buys units in a plan, with the cost of a unit depending on the age of the beneficiary.

For example, one unit in the Canadian Scholarship Trust for a newborn child would cost \$9.75 a month for 18 years, for a total investment of \$2,106, says Don Willard, vice-president of Toronto-

based CST. The older the child, the higher the price of a unit.

"The earlier you start, the better," Willard says.

Under one CST plan, the principal is returned in the first year of college. The student then receives a payment or "scholarship" in each of the following years, to a maximum of three scholarships.

CST's scholarship this year was \$1,660 per unit, Willard says.

The scholarship each year depends on the size of the investment pool and the number of units. The interest earned by unitholders who skip post-secondary education is divided up among the other kids.

These firms invest in safe, but potentially low-yielding investments such as treasury bills and government bonds.

Vicere says people should consider setting up a non-registered plan for the following reasons:

■ Flexibility. "You can add to it as you will," he says. "You may change your mind and get out." You also don't run the risk of losing your money if the child decides college isn't for him.

■ Higher returns. In the long-term, equity funds should provide higher returns than the conservative investments used by the pooled RESPs. As the child nears college age, your portfolio should be progressively switched from stocks into lower-risk investments.

Vicere warns: "The key is to invest it wisely. Otherwise you would have been better off putting it inside the RESP."

■ Taxes. Non-registered savings won't necessarily be taxed more than an RESP.

Interest earned on money given to a child by her parents is taxed in the parents' hands. However, capital gains — the increase in the price of a stock, for instance — will be taxed in the child's hands, Vicere says.

He also suggests getting a social insurance number for the child, which should help with the paperwork on her investments.



APPOINTMENT NOTICE



A. (TONY) ROSSI

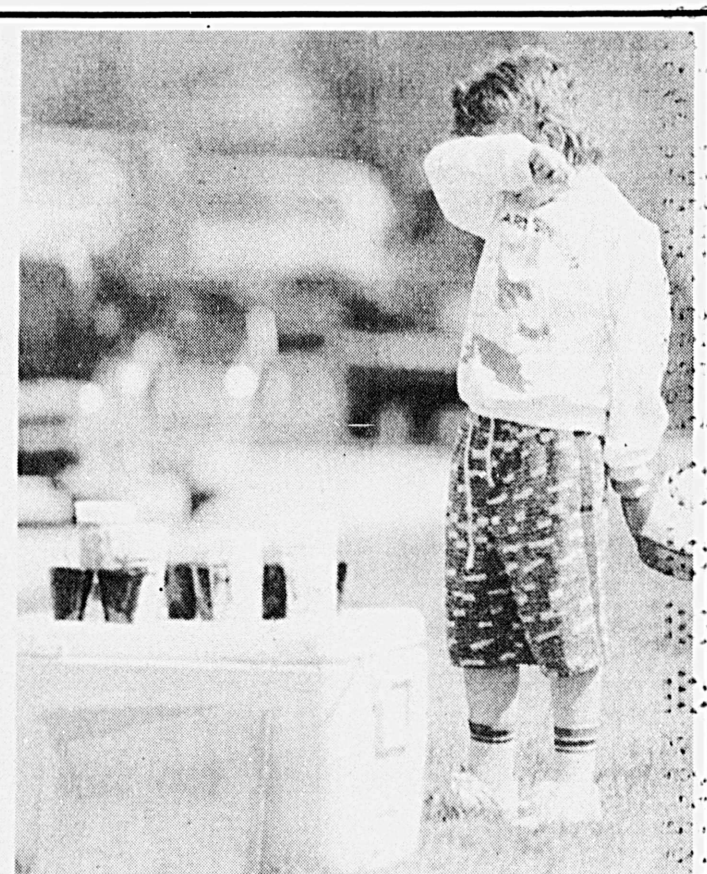
The appointment of A. (Tony) Rossi as Senior Director, Transportation Services, is announced by P.J. MacDonald, General Manager Operations for Canadian National Railways in Western Canada.

Rossi began his career with CN in 1965, and has worked in numerous locations including Kamloops, Vancouver, Edmonton, Winnipeg and Montreal. Most recently, he was District Manager of CN's B.C. North District.

In his current position, Rossi is responsible for the efficient movement of trains across CN's Western Canada territory, which extends from Thunder Bay, Ontario, to the west coast. Rossi is based in Edmonton, CN's Western Canada headquarters.



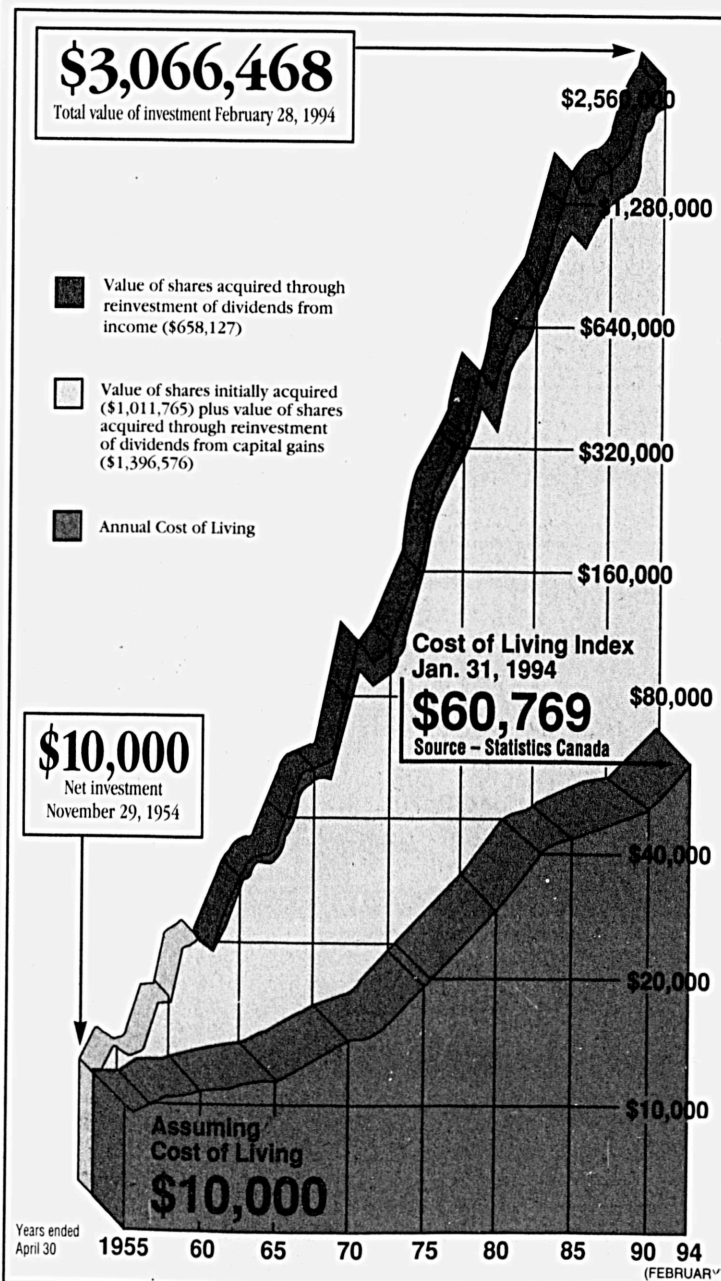
Hard sell



Jordyn Fancy, 7, of Calgary gets an early lesson in becoming an entrepreneur recently. He spent the day trying his best to get passing motorists to stop for a drink of cold Kool-Aid. He managed to collect \$8.40 for all his hard work.

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The indicated rate of return are the historical annual compounded total rates of return and are not necessarily indicative of future performance. They include changes in share value and reinvestment of all dividends and do not take into account sales, redemption, distribution or optional charges payable by any shareholder which may have reduced returns.

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