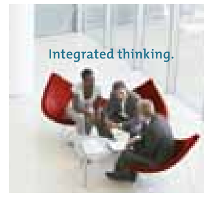

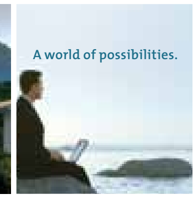

The Cash Damming Technique With The All-In-One

Definition

The cash damming is a technique whereby self-employed individuals gradually convert all types of debt for which interest is not deductible into debt for which interest is tax deductible. The cash damming technique consists of financing eligible business expenses and conserving cash assets generated by the business to pay personal expenses or loans for which the interest is not tax deductible. Interest on debt that is used to finance business spending is tax deductible.

Who can benefit from this technique?

The following people qualify for the cash damming technique:

- Unincorporated self-employed workers;
- General partnerships;
- Unincorporated owners of rental property.

How cash damming works

The basic principle is: instead of paying business expenses directly from business income, you will open two accounts:

- A business income account;
- A business expense account (line of credit).

In the business income account, you will deposit your business income and use this money to pay personal debt and expenses.

From the business expense account, using the credit available from your All-In-One you will pay your business expenses. However, make sure the line of credit is used only to pay the business expenses eligible for deductible interest.

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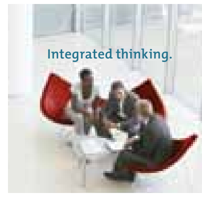

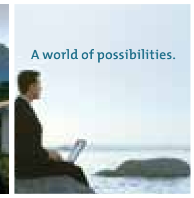

The Cash Damming Technique With The All-In-One

Application for a unincorporated self-employed worker

Mr. David is a unincorporated self-employed worker. His business has no debts. Sales total $250,000; operating expenses are $100,000. Net income is $150,000 which results in income tax of $60,000. Personal expenses total $90,000, including mortgage payments of about $15,000 per year.

Mr. David has no other cash resources to pay down his mortgage faster. He owns a $400,000 home with a $250,000 mortgage. Let's look at the impact of a cash damming strategy:

	W/o cash damming	With cash damming
Changes in business cash resources		
Sales	$250,000	$250,000
Debt (line of credit)	$0	$100,000
Business expenses	($100,000)	($100,000)
Changes in personal cash resources		
Personal cash	$150,000	$250,000
Personal expenses	($90,000)	($90,000)
Taxes	($60,000)	($60,000)
Additional cash	$0	$100,000
Changes in business debt		
Debt, beginning of year	—	—
Debt contracted during the year	—	$100,000
Debt, end of year	—	$100,000
Changes in personal debt		
Debt, beginning of year (mortgage)	$250,000	$250,000
Mortgage payment	($15,000)	($115,000)
Debt, end of year	$235,000	$135,000

According to this example, using cash damming could lead to potential tax savings of $2,169.90 for Mr. David, using a combined marginal tax rate of 48.22% and an interest rate of 4.5%.

After implementing the cash damming strategy, Mr. David has the same combined level of personal and business debt of $235,000, as without the strategy. However, interest on the business line of credit is now deductible, and his personal debt on which the interest is not deductible has decreased from $250,000 to $100,000. After two or three years of this strategy, the mortgage on the principle residence will be fully repaid and all debts will be business debts.

In this example, the $250,000 in business income is deposited in the "business income" account, which is used to pay $90,000 of personal expenses and $60,000 of taxes. The remaining $100,000 is used to pay down the outstanding mortgage balance.

This tax strategy is supported by the "Singleton" decision rendered by the Supreme Court of Canada and by publications produced by the Canadian tax authorities since September 2001. The Canada Revenue Agency (CRA) has clearly stated that the cash damming technique abides by the wording of paragraph 20(1) c) of the Income Tax Act concerning the deductibility of interest, because the money borrowed is assuredly used specifically for "eligible purposes". However the National Bank of Canada only offers a compatible financial management account structure and does not in any way recommend or disapprove this strategy. We recommend that you obtain Legal advice to get more information on this strategy.

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