Cash flow planning – COVID 19

January 2021

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During these unprecedented times, you may find that your cash flow has changed. For some, who may have lost a job or have had their hours reduced, your income may have decreased. For others, who no longer spend money on commuting, travel or eating out, expenses may be reduced. In both of these situations, it is very important to review your cash inflow and outflow, and to create a cash flow statement. By doing so, you'll be able to readily see where you are spending your money, and whether you have an excess or shortfall in your cash flow. Once this is done, you will be in a position to determine if there are any ways to reduce or eliminate a shortfall, or consider whether excess amounts are being effectively used, such as being set aside to provide a cushion for the future by building savings. This can add to achieving some peace of mind in a time of much uncertainty.

The first step in cash flow planning is to keep track of all your cash inflows. This includes any income from sources such as:

- (Self-)employment;
- Business;
- Investments or rental properties;
- Retirement plans, including a Registered Retirement Savings Plans (RRSP), Registered Retirement Income Fund (RRIF), private pension plan, and Canada or Quebec Pension Plan, and
- Old Age Security and other government benefits.

Your next step is to track where you spend your money, which may prove to be a more difficult task. This will include the obvious items such as money spent on groceries, housing, utilities, car expenses, entertainment (including monthly subscriptions) and other leisure activities. You may find some of your expenses may have decreased, such as gas, transit or dining if you're not getting out as much as you once did. Don't forget less obvious expenses, such as taxes and any other debt payments you may have. If you've arranged to defer certain payments, perhaps for your mortgage, credit cards or student loans, remember that you'll have to resume making repayments in the future. If you received government COVID benefits[1], most are taxable and either no tax was withheld or remitted when they were paid to you, or tax at a 10% rate was withheld, so you should plan for any taxes that may need to be paid at when filing your tax return.

If you run a business, be careful to keep your business and personal expenses separate, so you can track amounts that may qualify for tax deductions and credits and increase your after-tax cash.

Once you've tracked all the amounts, put them in a cash flow statement where you subtract your expenses from your income to find out if you have a cash excess (surplus) or shortfall (deficit).

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[1] Government COVID benefits include the Canada Emergency Response Benefit, the Canada Recovery Benefit, the Canada Recovery Sickness Benefit, the Canada Recovery Caregiving Benefit, and the Canada Emergency Student Benefit.

If your cash flow statement reveals a surplus, your next step should be to determine how to best allocate those surplus funds. A CIBC advisor can assist you with reviewing choices such as debt repayment, and various investment options, both in registered plans (such as a TFSA, RRSP or RESP) or non-registered investment accounts. You can work towards savings for short-term goals, along with longer term goals, such as saving for retirement, kids' post-secondary education, buying a home or vacation property. By knowing what cash flow surplus you have, you can better prioritize savings for your various goals.

If you discover a deficit in your cash flow, even if only temporary, there are steps you can take to assist to remedy the situation. For instance, you may be able to reduce certain discretionary expenses, such as subscriptions you no longer use. Your CIBC advisor can assist you to review any outstanding debts you may have to see if there is a way to reduce overall payments. For example, you may be able to consolidate debts and perhaps obtain a lower interest rate. You may have other funds that can be more effectively used to pay down debt. Alternatively, you could consider various investment options that may have higher returns or attract lower tax rates, to provide more after-tax income to fund your cash flow needs.

You should review and update your cash flow statement and your full financial plan if either your income or expenses change materially in the future.

Your CIBC Advisor can help you review your cash flow statement and prepare for both planned and unplanned events. This is a fundamental part of any financial planning.

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