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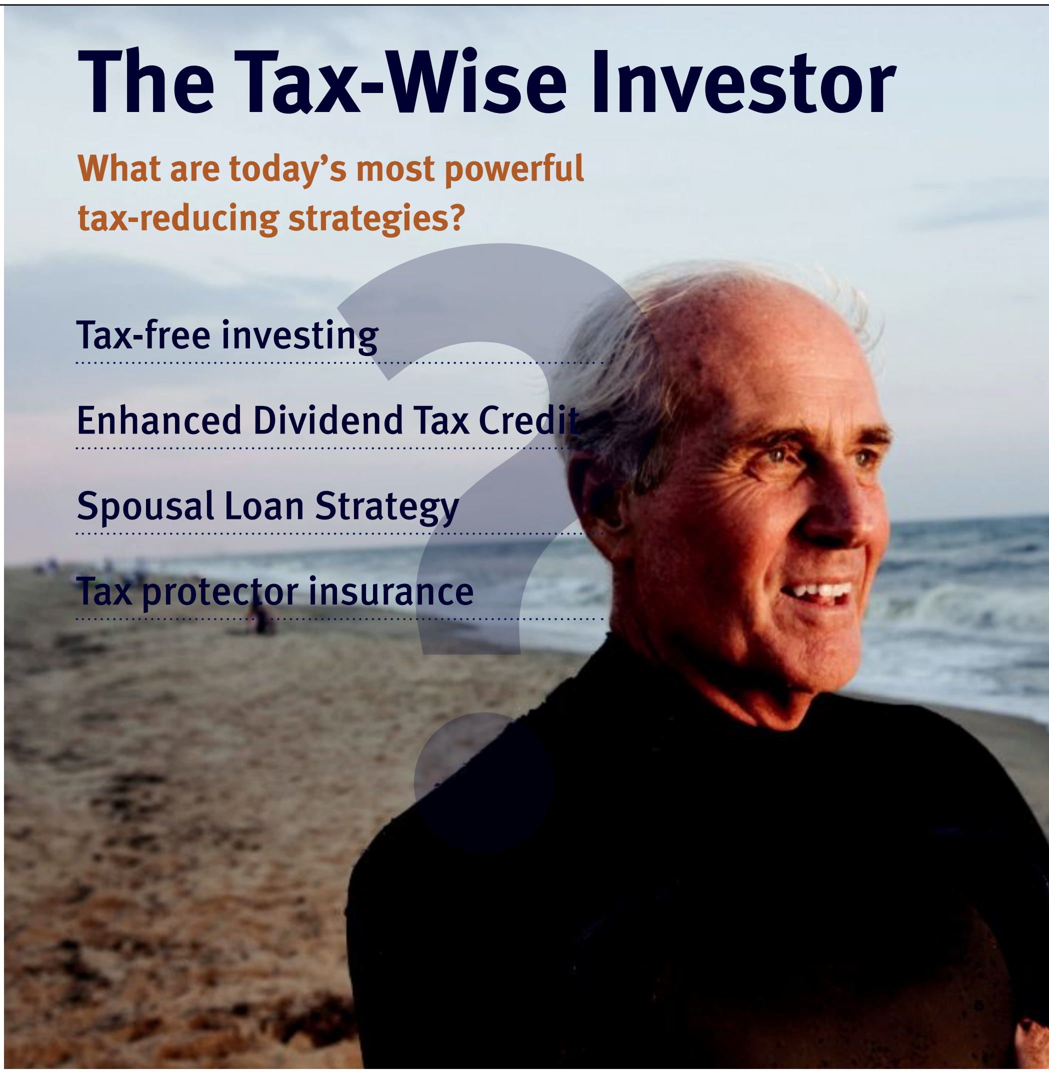
Invest with peace of mind

Get professional investment advice designed to meet your personal goals – and let you sleep at night. Please call today to arrange a complimentary evaluation of your current investment portfolio.



The Tax-Wise Investor

What are today's most powerful tax-reducing strategies?

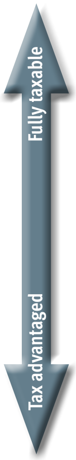
- Tax-free investing
- Enhanced Dividend Tax Credit
- Spousal Loan Strategy
- Tax protector insurance

The Tax-Wise Investor understands that it's not what you make that really matters – it's what you keep. Between today's ultra-low interest rates, volatile markets and economic uncertainty, making money is challenging enough. That's why it's more important than ever to keep more of what you make – after taxes.

Learn about tax-wise investing ⇨

Tax-wise investing

The fundamental thing that the Tax-Wise Investor understands is that some types of investment income receive preferential tax treatment. The following table shows how the main types of investment income are taxed in a regular, taxable account:



Interest income	› Interest income from safe investments like GICs and bonds is fully taxable at your marginal tax rate.
Foreign-source dividend income	› Dividends paid to you from U.S. or other foreign corporations are also fully taxable.
Capital gains	› Only half of any realized capital gain is taxable at your marginal rate. You typically realize a capital gain when you sell an investment or other asset at a profit.
Eligible dividend income	› Eligible dividends from Canadian public corporations receive the most favourable tax treatment due to the enhanced Dividend Tax Credit.
Return of capital	› While not technically investment income, the partial return of capital provided by some investments such as Real Estate Investment Trusts and some mutual funds is non-taxable upon receipt. However, a return of capital may lead to a larger capital gain in the future.

KEY TAX-WISE STRATEGIES

Maximize tax-deferred compound growth

You pay no taxes on investment income as it is earned within registered accounts such as your Registered Retirement Savings Plan (RRSP), Registered Pension Plan (RPP) or Registered Retirement Income Fund (RRIF). When you actually withdraw it, it is taxable at your marginal rate.

So why is it good to put off the inevitable in this case? First, your investment earnings, left free of annual taxation, grow much faster than they otherwise would. Second, your marginal tax rate can be lower when you eventually start making withdrawals during retirement.

Here are just a few ways you can maximize this key advantage:

- Keep your RRSP or pension topped up and contribute earlier in the year.
- Delay the conversion of your RRSP or pension into a RRIF until the deadline (the end of the year in which you turn 71) if possible.
- Withdraw the minimum required amount from your RRIF, drawing the income you need from more tax-efficient income sources, while leaving more in your RRIF to continue growing on a tax-deferred basis.
- Allocate more of your interest-bearing investments to your registered accounts, and less to your non-registered accounts, where the interest income is fully taxable annually.

IT'S NOT WHAT YOU MAKE – IT'S WHAT YOU KEEP

How much you keep after tax for every $1,000 earned			
Taxable income	Interest income	Capital gains	Eligible dividends
Up to $41,000	$760	$880	$1,000
$41,000-$81,000	$660	$830	$919
$81,000-$126,000	$590	$795	$828
$126,000+	$555	$777	$775

All amounts are approximate.

Get in on the big secret

It's still one of the best-kept investment secrets: tax-exempt life insurance. The "secret" is that you can hold investments like GICs and mutual funds within a life insurance policy. You never pay tax on the investment income, allowing your investments to grow much faster. And for most people, this greatly outweighs the insurance premium costs.

If you don't require access to these investments, their full value (including the growth) can go to your beneficiaries tax-free. Or, you can take out tax-free bank loans against the insurance policy. When your estate is settled, the insurance proceeds pay back the loans, with any remainder going to your beneficiaries, again, tax-free.

Please contact us for information about tax-efficient investment strategies.

Minimizing the impact of Canada's progressive tax system

With Canada's progressive tax system, the more you earn, the higher your tax rate. As a result, if you can transfer some of your income to lower-income family members – using legitimate strategies accepted by the Canada Revenue Agency (CRA) – you can reduce your family's overall taxes.

SPLIT YOUR PENSION INCOME

Recently introduced tax changes enable you to split up to 50% of your eligible pension income with your spouse – simply by declaring the income as your spouse's on your income tax returns. This makes it much easier to split income, and reduce your family's overall taxes. Eligible pension income includes life annuity benefits, pension plan income and RRIF income if you are over 65.

DON'T FORGET ABOUT YOUR SPOUSAL RRSP

Until the introduction of these new pension rules, the most effective way for you to split income with your lower-income spouse was to contribute to a spousal RRSP. With a spousal RRSP, you make contributions on behalf of your spouse and claim these as tax deductions, but your spouse eventually receives the income from the plan. The idea is to even out your retirement income, so you're both in similar tax brackets, and pay less combined tax.

So is a spousal RRSP still useful despite the new pension rules? Yes, because when properly planned you can use the spousal RRSP to split up to 100% of your eligible pension income with your spouse (instead of just 50%). This is particularly important if you expect substantial income from sources not eligible for pension income splitting (e.g. from non-registered, regular taxable accounts).

MAKE A LOAN THAT PAYS YOU BACK WITH LOWER TAXES

Another way you can split income with your spouse to reduce combined taxes is through the Spousal Loan Strategy. With this strategy, you loan funds to your lower-income spouse at an interest rate set by the CRA. Your spouse then invests the funds in a non-registered investment portfolio designed to produce returns in excess of this interest rate. These returns are taxable at their lower rate.

Your spouse must pay you interest annually at the CRA-prescribed rate set at the time of establishing the loan; otherwise, the income-splitting benefit of the strategy will be lost. However, the tax you pay on these annual interest payments is much less than the tax savings you have the potential to realize when the strategy is properly implemented.

Tax savings with a $500,000 Spousal Loan Strategy at the 1% CRA-prescribed rate

	Without strategy	With strategy
Annual after-tax income	$24,875	$29,700
Annual tax savings	$0	$4,825
10-year tax savings	$0	$80,447
20-year tax savings	$0	$282,206

The above illustration assumes marginal tax rates of 20% and 45% for the lower- and higher-income spouse, respectively, and a 7% annual return comprised of 1% eligible Canadian dividends, 2% interest and 4% realized capital gains. Ask your advisor for a personalized illustration based on your individual financial situation.

A word to the wise

With the CRA-prescribed rate on spousal loans at a historic low of 1% until June 30, 2010, you have a unique window of opportunity to save taxes with the Spousal Loan Strategy. The interest rate in place at the time of the loan can remain in effectfor the life of the loan – even if the rate goes up later.

KEEP IT ALL IN THE FAMILY

You can also implement a loan strategy to split income with your children or grandchildren through a Family Trust. If your children or grandchildren earn no other income, they can earn up to $18,000-$20,000 in tax-free investment income (varies by province). The investment earnings must be paid or payable to a trust beneficiary; otherwise, the income is taxed at the highest marginal rate in the trust. You can also use the earnings to pay for expenses that directly benefit a beneficiary, such as private school or extracurricular lessons.

SPREAD THE TAX-FREE LOVE

Another way to split income with your family members is to help them open TFSAs. Give money that would otherwise be exposed to your high tax rate to your lower-income adult family members to contribute to their own TFSAs. All the investment income they earn is tax-free, reducing your family's overall taxes.

Please contact us for more information about reducing your family's overall taxes with income-splitting strategies.

Managing "half-hidden" tax exposures

It's a common misconception that you can pass along assets to your family members without tax consequences when your estate is settled. In fact, everything from your principal residence to treasured family heirlooms can be taxed – even if they are not actually sold – when you pass them along to anyone other than your spouse.

A word to the wise

If you are an incorporated business owner or incorporated professional, an Individual Pension Plan (IPP) enables you to make greater registered contributions – tax-deductible to your corporation – compared to a regular RRSP.

FUNDING THESE "HALF-HIDDEN" TAXES

Your beneficiaries can either pay these taxes out of pocket and keep the assets – or sell the assets and use the proceeds to pay the taxes. As neither of these options may be ideal, many families take out tax insurance in advance.

Tax protector insurance can be used to cover several tax liabilities:

› Capital gains realized on real estate, investments, and heirlooms like artwork, antiques and jewelry

› Registered plan balances, which must be claimed on your final income tax return

› U.S. Estate Tax on U.S. real estate and investments

Please ask us for more information about tax protector insurance.

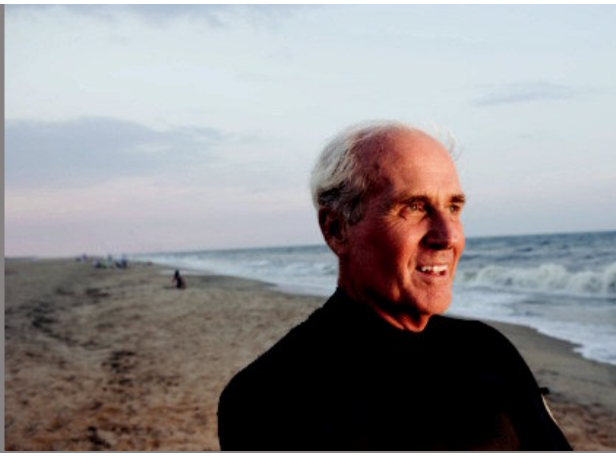
A word to the wise

If you still haven't opened a Tax-Free Savings Account (TFSA), you're missing out on a significant tax break. You can invest in many of the same types of investments as an RRSP or RRIF and all of the investment income you earn is tax-free. It's ideal for investments that would otherwise attract heavy taxation, such as those paying high levels of interest income. You can contribute up to $5,000 to a TFSA annually and unused contribution room accumulates every year going forward (starting from 2009 for those aged 18+).

Learn how to keep more of what you earn

Ask us for your complimentary copy of our newly updated educational guide, *Tax Planning for the Private Investor*. Written by the tax experts at RBC Dominion Securities, this guide includes ideas to help you:

› Minimize investment income taxation
› Maximize RESPs, trusts, TFSAs, RRSPs and RRIFs
› Evaluate tax shelters
› Manage U.S. and foreign taxes
› Use insurance to effectively offset taxes



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