



DELIVERING TOTAL FINANCIAL SOLUTIONS

TO OUR CLIENTS

The foundation of our Client Commitment is a complete understanding of your financial goals and implementing customized solutions to help you achieve them. This means developing an overall plan that can be used to guide all your retirement, investment, estate and tax-planning decisions.

In this issue of *exchange*, we focus on tax planning and present some opportunities that can help you achieve a more tax-efficient financial plan. With knowledge and resources throughout the Scotiabank Group, your ScotiaMcLeod advisor can work with you and your professional tax advisor to recommend and implement a tax-effective strategy that is right for you.

Sincerely,
ScotiaMcLeod

Building a Tax-Wise Financial Strategy

Mary Grace Policelli, *Manager, ScotiaMcLeod Financial Planning Group*

Building your wealth requires a careful evaluation of your overall financial picture. This includes taking a careful look at your personal circumstances and the tax implications of your investments. Being tax-wise means taking a year-round approach to your tax planning and exploring the different opportunities available that can help you effectively reduce your current and future tax liabilities.

Here are some strategies that can help you build a more tax-effective plan.

INCOME SPLITTING

Income splitting involves structuring your affairs to move income into the hands of a lower-income family member who will pay less tax. There are tax rules, or attribution rules, which limit the use of income splitting strategies. However, there are still opportunities that fall within the rules that can help you reduce your tax liability.

- **Spousal loan** - Take advantage of today's low-interest-rate environment to arrange a loan from a higher-income

spouse to a lower-income spouse at what is referred to as the prescribed interest rate, currently 4%. The interest must be paid by January 30th of the following year to avoid income attribution.

- **Spousal RRSP** - This allows a higher-income spouse to contribute to the RRSP of a lower-income spouse. At retirement, this can help shift more income to the spouse who is expected to be in a lower tax bracket.
- **Split CPP benefits with your spouse** - Human Resources Development Canada will allow you to split up to 50% of your CPP benefits with your spouse. This can also lower the tax liability during retirement for the higher income spouse.
- **Higher-income earner pays expenses** - Have the higher income spouse pay all the family bills and expenses, allowing the lower-income spouse to make investments with his/her capital. The income on those investments is taxed at a lower rate for the lower-income spouse.

- **Invest for your children** - Unlike interest or dividend income attributed back to a parent on money gifts to minor children, capital gains are not. Therefore parents should consider investing in stock or mutual funds that only produce capital gains and pay very little income, so that the capital gain is taxed on the children's gifts/income.

SUBSTITUTE OR SWAP NON-DEDUCTIBLE DEBT FOR DEDUCTIBLE DEBT

If you have both mortgage debt and an investment portfolio, you can use the proceeds of the investment portfolio to pay off the non-deductible mortgage debt, and then you borrow to fund assets in the investment portfolio. Now the interest is being borrowed for investment purposes and becomes tax-deductible.

DONATE SECURITIES

If you are considering a charitable donation, you may want to give stocks, bonds, or other publicly traded securities, including mutual

funds, rather than cash. You will be deemed to have sold the investment at fair market value; however, any capital gains will be eligible for a reduced capital gains inclusion rate of 25%, instead of 50%.

MAXIMIZE YOUR RRSP

A simple, yet effective, tax-planning opportunity is the RRSP. The sooner you invest, the longer your savings will be able to grow on a tax-deferred basis. If you have significant unused RRSP contribution room, a short-term loan is often a great way to catch-up.

TAX EFFECTIVE INVESTING

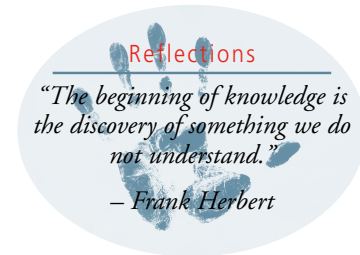
In addition to diversification and risk tolerance, one must consider an investment's after-tax rate of return when investing. In order to reduce the tax paid on your investment income, you should consider investments generating capital gains or Canadian-source dividend income, as they are taxed more favourably than interest income. It is important to note that only half of realized capital gains are taxable, and dividends received

from a Canadian corporation are subject to a dividend tax credit.

Another effective tax strategy is to put interest-bearing vehicles in your RRSP, dividend and capital gains-producing vehicles outside.

Paying taxes is a necessity. But maximizing your after-tax returns, is where we can help. With support from a team of experts and resources from the Scotiabank Group, your ScotiaMcLeod advisor can help you make the right decisions that ensure you have a tax-wise financial plan.

The information above is for information purposes only and is not intended to replace the advice of a lawyer or accountant and should not be relied upon as such. It is recommended that individuals consult with their own tax advisor before acting on any information contained here.



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