



At ScotiaMcLeod, we believe in taking a complete look at your financial situation to deliver a plan that is tailored to your needs. This includes reviewing new opportunities to help you achieve a more tax-efficient plan. In this issue of exchange we review the new, Tax-Free Savings Account that will be available in 2009. Talk to your ScotiaMcLeod advisor to see if this account is right for you or other members of your family.

A New Opportunity to Save on Taxes

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Like most Canadians, you've worked hard to earn your money and you want to see as much of it as possible working for you. Therefore, it's important to explore strategies and opportunities that help you reduce both your current and future tax liabilities. Beginning next year, a new savings vehicle will be available that could be appropriate as part of an overall financial plan.

As of January 2nd, 2009, Canadian residents 18 years of age and older, subject to provincial age of majority rules, will be able to contribute up to \$5,000 to a Tax-Free Savings Account (TFSA) annually. Investment income, including interest income, capital gains and dividends earned within the account will be tax free – even when withdrawn.

The TFSA is widely seen as a welcome addition to the tax-efficient saving and investment options currently available for Canadians that will complement existing registered savings plans. TFSAs will play a significant role in the savings plans of all Canadians and are designed to help Canadians save for a wide variety of goals.

The TFSA may be used by high-income investors to shelter interest income or foreign dividends which are taxed at the top marginal tax rate. Conversely, the TFSA is also an attractive investment vehicle for some seniors as tax-free withdrawals will not trigger reductions in Old Age Security benefits or the Guaranteed Income Supplement. Unlike RRSPs, which must be converted into registered income funds after age 71, there is no maximum age limit for contributing to a TFSA. So, the good news is that the TFSA gives retirees a tax free investment option where one has never existed before.

Although the TFSA has no up front tax deduction (unlike RRSPs), the money that is withdrawn is not taxed, including interest income, capital gains or dividends, which compound tax-free. If all funds are withdrawn from the plan, the full amount is available tax-free plus the withdrawal is added to future contribution room.

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Another interesting feature of the TFSA is the income splitting opportunity that it affords, because attribution rules do not apply to income earned within the account. As a result, the TFSA allows a higher-income spouse to split investment income by contributing to the TFSA of a lower-income spouse.

Here are some additional Tax-Free Savings Account highlights:

- The \$5,000 will be indexed for inflation in \$500 increments.

- A TFSA will be permitted to hold the same investments as an RRSP; however, a TFSA will be prohibited from holding investments in any entity with which the account holder does not deal at arm's length.

- Any unused contribution room can be carried forward to future years, and there is no limit on the number of years that unused contribution room can be carried forward.

- Interest on money borrowed to invest in a TFSA will not be

deductible in computing income for tax purposes.

- TFSA assets can be used as collateral for a loan.

Your ScotiaMcLeod advisor can answer any questions you may have on the TFSA and, with the support from experts within the Scotiabank Group and working with your personal tax advisor, can help you implement a tax-wise investment plan that is appropriate for your personal situation.

NEW LAW PASSED FOR CREDITOR PROTECTION FOR REGISTERED ACCOUNTS

Until recently an investor's registered assets (RRSPs, RRIFs, DPSPs) were not subject to protection against the claims of creditors in the event of personal bankruptcy, and this was a real concern for many investors, particularly small business owners.

With the passing into law of Bill C-12, an amendment to the federal *Bankruptcy and Insolvency Act*, this situation has now been addressed. As of July 7, 2008, all registered investments held by banks, brokerages, mutual funds or in self-directed RRSP accounts are now exempt from seizure in the event of bankruptcy and will now enjoy the same creditor protection as insurance and pension investments. This protection applies to all bankruptcies initiated on or after July 7, 2008.

This change will not protect transfers into these products within 12 months of an assignment into bankruptcy. Provincial law may override this exemption, however. Provinces are not required to take any action to effect these federal changes; therefore, these changes are in effect immediately for consumers. There are no cap limits to the amounts protected from seizure.



Reflections

To acquire knowledge, one must study, but to acquire wisdom one must observe.

Marilyn vos Savant

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