BMO Nesbitt Burns Tax Report: Canadians Confident in Tax Planning, but Lack Knowledge on How Investments Are Taxed

- *Forty-two per cent of Canadians do their own taxes*
- *Overwhelming majority of Canadians are confident that their tax return will take advantage of tax saving measures, yet many do not know how investment income is taxed*

TORONTO, April 11, 2012 – BMO Nesbitt Burns today announced the results of a study which found that the overwhelming majority of Canadians (84 per cent) are confident that their completed tax return will take advantage of all of the tax deductions, tax credits or other tax savings that may be available to them.

The study, conducted by Leger Marketing, also showed that despite this confidence, many Canadians are not knowledgeable about the tax implications of investment income, including:

- How capital gains are taxed (58 per cent)
- How dividend income is taxed (63 per cent)

"It's encouraging to see that Canadians are feeling confident about their tax return, but it is critical to understand the full picture on how you are being taxed – especially with investments," said John Waters, Vice President & Head of Tax, Estate and Trust Expertise, Wealth Group, BMO Nesbitt Burns. "The taxation of investment income can have a real impact on net returns, which is why it is necessary to understand how you are being taxed before making investment decisions throughout the year."

The study also showed that only one in five Canadians understand the tax implications associated with the transferring of wealth upon the loss of a loved one. Mr. Waters noted that this could become a serious issue, especially considering the aging population and the unprecedented shift in wealth from one generation to the next that will occur in the coming decades.

Further, the study provided a breakdown of how Canadians are doing their taxes: 42 per cent of Canadians prepare their own tax returns; 38 per cent hire a professional; and 18 per cent have a friend or relative do them.

According to the Canada Revenue Agency, the average total tax refund received last year was $1,506.

Other Key Findings:

- Twenty-three per cent of Canadians do not anticipate receiving a tax refund this year
- Canadians over the age of 45 are more likely (46 per cent) than those 44 and younger (31 per cent) to say that they understand income taxes

- Seventy-two per cent of Canadians who prepare their own tax returns are knowledgeable about the tax implications of Tax Free Savings Accounts (TFSAs), compared to only 54 per cent of those who do not prepare their own returns

BMO Nesbitt Burns' John Waters provides the following ways to help understand how investment income is taxed and create a tax-efficient investment strategy:

Talk to an expert: In order to ensure your investments and tax goals are aligned, seek out the help of professionals, including an investment advisor or accountant.

Do your research: Take advantage of the numerous online educational resources that can provide straightforward, simple tips on how investments are taxed.

Understand capital gains: There are several ways to minimize taxes on capital gains, including: catching up on unused RRSP room; delaying or deferring the gains to next year; using capital losses to offset gains; and donating appreciated publicly-traded securities to a charity. Speak to your investment advisor and tax advisor to understand how to implement these strategies.

Use your Registered Retirement Savings Plan (RRSP): Be aware of the high tax rates applied to interest income and consider holding any interest-bearing investments in your RRSP, where the income grows tax-deferred until withdrawn from the plan.

Invest in preferred shares: Where appropriate, consider including Canadian preferred shares as part of your income portfolio for a dividend income stream that is generally taxed at a lower effective tax rate than interest.

For more information on wealth management and BMO Nesbitt Burns, please visit: www.bmo.com/nesbittburns

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The survey was completed online from March 26, 2012 to March 29, 2012, using Leger Marketing's online panel, LegerWeb, with a sample of 1,500 Canadians. A probability sample of the same size would yield a margin of error of ± 2.5%, 19 times out of 20.

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