BMO NESBITT BURNS

Investing for the Future

Tax Efficient Investing

THIS PUBLICATION IS PART OF A SERIES THAT FOCUSES ON THE UNIQUE NEEDS OF INDIVIDUALS NEARING OR IN RETIREMENT

You've worked, invested and saved to amass enough wealth to last a lifetime, and like most people you want to minimize the tax on your hard earned money. Benjamin Franklin once said, "taxes are one of the certainties of life," and while they can't be avoided, taxes can be managed from an investment standpoint. Make every dollar count and ensure your investments are structured in a tax-efficient manner.

Review your investment portfolio

You may be confident that your investments will provide you with a lifetime of income but remember, it's also important to review your overall investment plan as you enter the retirement phase of life. For example, depending on individual circumstances, your investment portfolio may be generating more income than is currently needed, or insufficient income that could result in the depletion of your investments. Tax treatment differs for interest income, dividend income, capital gains and foreign income—something to consider when determining the appropriate combination of equities, bonds and cash for your investment goals and risk tolerance. Being aware of the tax treatment of the various types of investment income, including the recent changes in the tax rates for "eligible" dividends is important to optimizing your after-tax investment return.

Utilize tax-deferred accounts

One of the few remaining tax shelters available to Canadians is a tax deferred registered investment plan (i.e. RRSPs and RRIFs). The removal of the foreign content restriction on registered plans several years ago provided investors with greater flexibility and choice when designing their investment portfolios. Furthermore, the recent introduction of the Tax-Free Savings Account (TFSA) has provided another important tax advantaged account which compliments other existing registered savings plans. Knowing how to allocate investments across your taxable and non-taxable accounts and how to navigate retirement account withdrawal rules to avoid unnecessary taxes, is essential to reduce the tax you will pay. Finally, understanding the pension income-splitting rules will allow you to optimize the tax treatment of your retirement income by potentially allocating eligible pension income for tax purposes to your spouse (or common-law partner) in a lower tax bracket.

Think about life insurance as a tax sheltering opportunity

Do you have additional cash flow from taxable investments? Many people accumulate funds in taxable investments during their lifetime, which results in a surplus of cash in retirement. Life insurance, one of the few tax-favoured products still available, can be used by investors in a tax-efficient way to create, manage, protect and transfer their wealth. With a life insurance policy, an investor has the potential to reduce tax on investment income while living and maximize the amount to be passed on to heirs upon death, when insurance proceeds flow tax-free to beneficiaries.

What's next?

You've worked hard—saving and investing over the years to reach an enjoyable retirement. Helping you maximize your after-tax return through tax management strategies and alternative investment vehicles is one way your BMO Nesbitt Burns Investment Advisor can add value to the wealth management process. He or she can provide you with the information, tools and assistance you need to reach your goals. In addition, your Investment Advisor can introduce you to other members of the team, such as Estate & Insurance Advisors, to explore other strategies.

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