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Newsletter

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The 2008 Federal Budget and Your Financial Plan

Finance Minister Jim Flaherty delivered his third federal budget in February, 2008. This budget has many items that could affect your financial plan and present additional savings and investment opportunities. The following is an overview of the federal budget.

➢Tax-Free Savings Account (TFSA)

Beginning in 2009, Canadians over the age of 18 can contribute $5,000 each year to a TFSA and investment income, including capital gains, will accumulate tax-free. Withdrawals will also be, as the name implies, tax-free. Unused contribution room carries forward to subsequent years.

Details of the Budget Proposals on TFSA:

Eligibility and Contribution Limits –
Commencing in 2009, individuals age 18 and older may establish a TFSA to which they can make non tax-deductible contributions subject to certain dollar limits. Similar to RRSPs, individuals will accumulate contribution room that will limit the amount that they can contribute to TFSAs. For 2009, the maximum contribution limit will be $5,000 with this limit being indexed for subsequent years. Any unused contribution room can be carried forward indefinitely. Based on the Budget documents, it appears that the Canada Revenue Agency will determine and report unused TFSA contribution room to eligible individuals. Unlike RRSPs, amounts withdrawn are not only tax-free, but can also be returned to the TFSA at a later date without reducing unused contribution room**.**

Qualified Investments - The Budget proposes that a TFSA will generally be permitted to hold the same investments as an RRSP. These include, for example, mutual funds, publicly traded securities and government and corporate bonds.

Borrowing to Contribute to a TFSA - Because investment income within and withdrawals from a TFSA are not taxable, interest on money borrowed to contribute to a TFSA will not be tax deductible.

Spousal Contributions and Attribution Rules - Generally, if an individual transfers property to his or her spouse or common-law partner, any income and capital gains on that property will be taxed in the hands of the individual making the transfer under the attribution rules contained in the *Income Tax Act*. Withdrawals from a TFSA and income and capital gains generated within a TFSA will not be subject to these attribution rules.

➢ Registered Education Savings Plans (RESPs)

The Budget proposes to extend the RESP contribution period from 21 years to 31 years. The life of the plan has been extended from 25 to 35 years. For certain plans where the beneficiary is disabled, the plan may now remain open for 40 years instead of 35. The Budget also proposes to allow a 6-month grace period for receiving Educational Assistance Payment (EAP) withdrawals from an RESP, so that a beneficiary may receive EAPs for up to 6 months after ceasing to be enrolled in a qualifying program. This will provide more flexibility for a beneficiary to access RESP savings. These changes will apply for the 2008 and subsequent taxation years.

➢Guaranteed Income Supplement (GIS)

The Budget proposes for the GIS earnings clawback to kick in at $3,500 instead of $500. The GIS provides a tax-free monthly benefit to lower-income Old Age Security recipients. The GIS is income-tested and is reduced by 50 cents for every dollar of non-exempt income that low-income seniors receive. The Budget proposes to increase the amount that recipients could earn before the GIS is reduced, by exempting the first $3,500 of net employment earnings for individuals in receipt of the GIS from the income test. Currently, the exemption is 20% of net employment income up to $2,500 which results in a maximum exemption of $500.

➢Federally Regulated Life-Income Funds (LIFs) for Retirees

In order to provide more flexibility to the owners of Federally regulated LIFs, the Budget proposes the following:

• An owner of a LIF who is 55 years of age or older and whose locked-in assets are less than 50% of the Year's Maximum Pensionable Earnings (YMPE) will be able to wind up the LIF or transfer the assets to an RRSP or RRIF. The dollar threshold in 2008 will be $22,450 (i.e. 50% of $44,900). The YMPE is indexed to annual increases in the average industrial wage.

A LIF owner who is at least age 55 will be able to make a one-time transfer of up to 50% of the value of the LIF to an unlocked RRSP or RRIF. A special withdrawal from a LIF of an amount up to 50% of the YMPE will be allowed where the owner of the LIF is experiencing "financial hardship", for example, low income or high disability/medical-related costs.