

# Federal Budget Spring 2005

As usual, the recent federal budget made some people happy and angered others. Although there weren't many changes that impact on personal financial planning, here are some points you should be aware of:

- **The restrictions on foreign content for all forms of registered savings plans have been eliminated.** While this doesn't mean that you should rush out to buy more foreign investments, it may be timely to review your overall investment strategy in light of the new situation.
- **RRSP contribution limits will be increased by \$1000 per year, starting in 2007 and continuing to 2010.** Current limits are \$16,500 for 2005 and \$18,000 for 2006. Higher income earners will benefit from additional tax sheltering as they save for their retirement.
- **Both the basic personal amount and the spouse or common law partner amount will be subject to gradual increases each year up to 2009.** These increases will be in addition to annual inflation adjustments, and will bring the credits up to \$10,000 and \$8,500 respectively by 2009. For 2005, we will see an increase of \$100 in the amount that can be earned tax-free.
- **Clients who have funds in a locked-in RRSP that originated from a federally regulated pension plan will be pleased to hear that the requirement to annuitize these funds by age 80 has been removed.** This will affect former employees of the federal government, as well as federally regulated industries such as the banks and airlines.
- **Canada Deposit Insurance Corporation (CDIC) coverage has increased from \$60,000 to \$100,000 per person per financial institution.** This higher level of coverage brings the banks on par with the credit union system, providing a higher level of security for those who hold large cash deposits and GIC accounts with member institutions.
- **The method of calculating withholding taxes on regular RRIF withdrawals has changed.** Previously, the tax rate was based on each individual withdrawal above the minimum amount. For example, if an individual withdrawal was under \$5000, a 10% withholding tax applied. Now, the withholding tax will be based on the total amount that will be withdrawn throughout the year. In many cases, this will result in more tax being withheld at source.
- **A new adoption tax credit has been introduced starting in 2005.** A credit of up to \$10,000 is available to offset the costs of adoption, including court costs, legal fees, travel, and translation. The credit must be claimed in the year the adoption is finalized, and may be split between two adoptive parents.



*B L Garbens Associates Inc.*

45 Sheppard Avenue East, Suite 900, Toronto, ON M2N 5W9

Tel. (416) 227-1543 Fax (416) 227-1547

[blgarbens@blgarbensassociates.com](mailto:blgarbens@blgarbensassociates.com)

[www.blgarbensassociates.com](http://www.blgarbensassociates.com)