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Independent Financial Advice  
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# inBrief *financial information you can use*

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## PRESIDENT'S MESSAGE



*Little things do make a big difference. That's just as true in taking care of our finances as in living our lives. Every small change we make now to take better care of our health can add up to improved outcomes in the years to come. The same holds true when deciding to make the new TFSA's a consistent part of your financial savings strategy. One look at the compounding chart we've included and it's clear that starting your TFSA this year can yield big results down the road. And isn't it reassuring to know that when it comes to health and finances, one step at a time is still one of the best roads to success?*

*Barb*

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## Should You “Trust” Your Children?

When it comes to leaving money to the next generation, you may want to consider whether or not to use a trust. While some people feel that trusts are expensive and complicated, they have significant tax advantages that shouldn't be ignored. They can also work to protect the assets themselves from possible misuse by the beneficiaries. Let's take a look at how this could work.

Gerry and Jane have two adult children, Bruce and Judy. Judy is a successful dentist with three children who earns over \$150,000 per year from her practice. Bruce, on the other hand, is a part-time musician who lives hand to mouth. While Judy has always managed her money carefully, and invested well, Bruce's interests lie in other areas. He has never been one to save and invest, preferring to live for today and let tomorrow take care of itself.

Gerry and Jane's estate plan calls for all assets to go first to the surviving spouse, and then to be divided equally between Bruce and Judy. However, rather than leaving assets directly to either child, there could be significant advantages to leaving the assets in trust.

### Income Splitting

First of all, Judy's income takes her into the top marginal tax bracket. Any income from the investment of her inheritance will automatically be taxed at the top rate. If her

share was paid into a testamentary trust created by her parents' wills, the income could be taxed in the trust, at the usual graduated rates that apply to us all. Judy could still have access to the funds at any time, but she would enjoy significant tax savings.

### Generation Skipping

On the other hand, Gerry and Jane might feel that Judy is doing quite well for herself, and doesn't really need any extra money. They might prefer to set up a testamentary trust for Judy's children, providing them with the funds they need for a start in life, whether paying for education, buying a first home, or starting a business.

### Spendthrift Trust

For Bruce, a trust is useful for other reasons. While tax rates are not an issue, Gerry and Jane are concerned about his ability to manage an inheritance. While they would like to see the money invested wisely for Bruce's future, they fear he may use up this “windfall” in short order. By creating a testamentary trust for Bruce, Gerry and Jane name a trustee to manage the funds and pay income and/or capital to Bruce according to the guidelines in the trust document.

While using a testamentary trust has many advantages, there are costs to consider as well. We would be happy to discuss the details with you at your convenience.

# Tax-Free Savings Accounts

As you may have heard by now, the federal government has given you a brand new gift to celebrate the New Year – the Tax-Free Savings Account or TFSA.

Introduced in last year's federal budget, and widely promoted by many financial institutions prior to Christmas, the TFSA officially launched on January 1, 2009. But many folks are still confused about the role the TFSA can play in their overall financial planning. Let's take a look at the details.

Any Canadian resident age 18 or older can open a TFSA. There is no upper age limit, so even those people who can no longer contribute to RRSPs can save in a TFSA. The contribution limit is \$5,000 for 2009. This limit is the same for everyone, regardless of how much income they earn. The limit will be indexed to inflation, but increased limits will be rounded to the nearest \$500.

Unlike RRSPs, contributions are not tax deductible, but the investment earnings are completely tax-free, both while they accumulate in the TFSA and on withdrawal. This feature means that the withdrawals will have no impact on income-tested government benefits such as OAS and the Child Tax Benefit.

The one unfortunate thing about the TFSA is its name – it suggests that funds invested in the plan can only be held in a bank savings account, which is definitely not the case. In fact, any investment that can be held in an RRSP can be held in a TFSA – mutual funds, stocks, bonds, GICs. Having said that, however, it probably makes sense to choose interest-bearing investments that

don't receive any favourable tax treatment in a non-registered account. Dividends from Canadian corporations and capital gains are taxed more favourably.

We will be glad to help you see how the TFSA can fit into your overall financial plan, but here are some ideas you may want to consider:

**If you're already retired**, you may find that legislation requires you to draw more money out of your RRIF than you need to cover your expenses. The excess amount (up to \$5,000) can be invested in a TFSA each year, where it can grow without incurring more tax.

Some retirees have already accumulated significant investment assets outside of their RRIFs. These assets can be gradually shifted into a TFSA to stop the future accrual of tax. Be careful when transferring assets, however. Just like when transferring assets into an RRSP, capital gains are triggered at the time of the transfer, but capital losses are denied.

**If you're just joining the working world**, you may be wondering about the benefits of a TFSA versus an RRSP. One rule of thumb says that, if your current tax bracket is lower than your expected tax bracket in retirement, you're better off using the TFSA. Remember, you can always transfer the funds from the TFSA to the RRSP to take advantage of the tax deduction once you're in a higher bracket.

There's a lot more to know about this new gift, so don't hesitate to call if you'd like more details. Happy New Year!

## Take a look at how much you could accumulate in a TFSA over 30 years!

	Beginning of Year Value	Limit Based on 2% Inflation <sup>1</sup>	4% Rate of Return	End of Year Value
2009	\$0	\$5,000	\$200	\$5,200
2010	\$5,200	\$5,000	\$408	\$10,608
2011	\$10,608	\$5,000	\$624	\$16,232
2012	\$16,232	\$5,500	\$869	\$22,602
2013	\$22,602	\$5,500	\$1,124	\$29,226
2014	\$29,226	\$5,500	\$1,389	\$36,115
2015	\$36,115	\$5,500	\$1,665	\$43,279
2016	\$43,279	\$5,500	\$1,951	\$50,730
2017	\$50,730	\$6,000	\$2,269	\$59,000
2018	\$59,000	\$6,000	\$2,600	\$67,600
2019	\$67,600	\$6,000	\$2,944	\$76,544
2020	\$76,544	\$6,000	\$3,302	\$85,845
2021	\$85,845	\$6,500	\$3,694	\$96,039
2022	\$96,039	\$6,500	\$4,102	\$106,641
2023	\$106,641	\$6,500	\$4,526	\$117,666
2024	\$117,666	\$6,500	\$4,967	\$129,133
2025	\$129,133	\$7,000	\$5,445	\$141,578
2026	\$141,578	\$7,000	\$5,943	\$154,522
2027	\$154,522	\$7,000	\$6,461	\$167,982
2028	\$167,982	\$7,500	\$7,019	\$182,502
2029	\$182,502	\$7,500	\$7,600	\$197,602
2030	\$197,602	\$7,500	\$8,204	\$213,306
2031	\$213,306	\$7,500	\$8,832	\$229,638
2032	\$229,638	\$8,000	\$9,506	\$247,144
2033	\$247,144	\$8,000	\$10,206	\$265,349
2034	\$265,349	\$8,000	\$10,934	\$284,283
2035	\$284,283	\$8,500	\$11,711	\$304,495
2036	\$304,495	\$8,500	\$12,520	\$325,514
2037	\$325,514	\$8,500	\$13,361	\$347,375
2038	\$347,375	\$9,000	\$14,255	\$370,630
2039	\$370,630	\$9,000	\$15,185	\$394,815

Source: Biscott, Lynn. *The Boomers Retire*. Carswell. 2008.

<sup>1</sup>Maximum contribution made at the beginning of each year.



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