

# TD Mutual Funds Tax & Retirement Planning Guide

TD Mutual Funds realizes the importance of maximizing your clients' after-tax income. For most Canadians paying taxes is one of their biggest lifetime expenses. Tax planning can have an immediate, as well as profound long-term impact on a person's standard of living, financial security and ability to meet financial goals. Fortunately there are many tax-efficient investment strategies Canadians can use to help maximize after-tax income and grow their investments. This includes investing in corporate class mutual funds, receiving tax-efficient income like dividends and capital gains, using registered plans for investing for retirement or a child's education and using a Tax-Free Savings Account (TFSA) to maximize tax credits and deductions. We encourage your clients to seek qualified tax planning advice to develop a strategy that's appropriate for their personal situation.

## Tax Planning




### Federal Tax Brackets and Rates

2010 Income <sup>1</sup>	Rate
\$0 – \$40,970	15.00%
\$40,971 – \$81,941	22.00%
\$81,942 – \$127,021	26.00%
\$127,022 and over	29.00%

Source: KPMG.

<sup>1</sup> CPI-indexed increase of 0.6% over 2009.

### Payroll Deductions 10 Year Snapshot<sup>1</sup>

	2010	Change from 2009
Maximum EI Premium <sup>2</sup>	\$747	
Maximum CPP Contribution <sup>3</sup>	\$2163	
Top Federal Tax Rate	29%	

Source: PricewaterhouseCoopers.

<sup>1</sup> Not Indexed for inflation, figures rounded to nearest dollar.

<sup>2</sup> Maximum Employment Insurance (EI) premium for employee.

<sup>3</sup> Maximum Canada Pension Plan (CPP) contribution for non-self employed employees.

### Important Dates

- RRSP Contribution Deadline March 1<sup>st</sup>, 2011
- Self-employed business tax filing deadline June 15<sup>th</sup>, 2011
- Individual tax filing deadline April 30<sup>th</sup>, 2011
- Last day for electronic filing of 2010 personal income tax using NETFILE September 30<sup>th</sup>, 2011
- Quarterly deadlines if you pay taxes to CRA by installments:
  - ▶ March 15<sup>th</sup>, 2011
  - ▶ June 15<sup>th</sup>, 2011
  - ▶ September 15<sup>th</sup>, 2011
  - ▶ December 15<sup>th</sup>, 2011

### Did you know?

Always take advantage of tax-deferred compounding to help your investments grow faster outside of a registered plan. One way to do this is to invest in corporate class mutual funds. If you decide to change your asset mix within the corporate class family of funds your taxes from a potential capital gain is deferred until when you decide to cash out. And by paying less tax immediately, you'll have a greater amount of money to grow.

### 2010 Top Marginal Personal Tax Rates<sup>1</sup>

Province/Territory	Interest & Foreign Dividends %	Capital Gains %	Eligible Canadian Dividends %
Federal Only	29.00	14.50	15.88
Alberta	39.00	19.50	15.88
British Columbia	43.70	21.85	21.45
Manitoba	46.40	23.20	25.09
New Brunswick	43.30	21.65	19.46
Newfoundland and Labrador	43.40	21.70	20.77 <sup>2</sup>
Northwest Territories	43.05	21.53	19.81
Nova Scotia <sup>3</sup>	50.00	25.00	33.58
Nunavut	40.50	20.25	23.64
Ontario	46.41	23.20	26.57
Prince Edward Island	47.37	23.69	25.95
Quebec	48.22	24.11	30.68
Saskatchewan	44.00	22.00	21.64
Yukon	42.40	21.20	18.80
Non-Resident <sup>4</sup>	42.92	21.46	23.50

Source: PricewaterhouseCoopers.

<sup>1</sup> Federal and provincial rates combined, based on top personal income threshold of \$127,022 and greater.

<sup>2</sup> For Newfoundland and Labrador, the eligible dividend rates shown are for dividends paid after June 30<sup>th</sup>, 2010. The rate before July 1<sup>st</sup>, 2010 is 22.79%.

<sup>3</sup> For Nova Scotia, the tax rates shown are for taxable income of \$150,000 and greater.

<sup>4</sup> Non-resident rates for interest and dividends apply only in limited circumstances.



## Tax Planning

### Tax-Free Savings Account

The key benefits are:

- Starting in 2009, Canadians aged 18 and older can contribute up to \$5,000<sup>1</sup> every year into a TFSA.
- Contributions to a TFSA will not be deductible for income tax purposes but investment income, including capital gains, earned in a TFSA will not be taxed, even when withdrawn.
- Unused TFSA contribution room can be carried forward to future years.
- You can withdraw funds from the TFSA at any time for any purpose.<sup>2</sup>
- The amount withdrawn is added back to your TFSA contribution room the following year.<sup>3</sup>
- You cannot contribute more than your TFSA contribution room in a given year, even if you made withdrawals during the year.
- Excess TFSA amount will be subject to 1% in the month, for each month the account is in excess contribution position.

Source: PricewaterhouseCoopers.

<sup>1</sup> Indexed after 2009.

<sup>2</sup> Some restrictions may apply, depending on the investments chosen.

<sup>3</sup> Under proposed changes announced on October 16, 2009, certain withdrawals made in the previous year may not be added back in the following year.

### Attribution Rules

Party/Source	Gift	No or Low-Interest Loan	Loan at Prescribed or Commercial Rate
<b>Spouse or Partner</b>			
Income	Attributed to giftor	Attributed to lender	No Attribution
Capital Gains	Attributed to giftor	Attributed to lender	No Attribution
Second-Generation Income	No Attribution	No Attribution	No Attribution
<b>Child Under 18</b>			
Income	Attributed to giftor	Attributed to lender	No Attribution
Capital Gains	No Attribution	No Attribution	No Attribution
Second-Generation Income	No Attribution	No Attribution	No Attribution
<b>Child Over 18</b>			
Income	No Attribution	No Attribution <sup>1</sup>	No Attribution
Capital Gains	No Attribution	No Attribution <sup>1</sup>	No Attribution

Source: KPMG.

<sup>1</sup> Provided the main reason for making the loan was not to reduce or avoid tax of the lender.

## Retirement Planning

### Registered Savings Plan (RSP) Contribution Limits

18% of Earned Income to a Maximum of:

Year	Maximum RSP Contribution
2009	\$21,000
2010	\$22,000
2011	\$22,450
2012	Indexed to increases in the Average Industrial Wage

### Withholding Tax Rates for RSP/RIF Withdrawals

Amount With-drawn in Excess of Minimum	All Provinces Except Quebec	Quebec	Non-Residents <sup>1</sup>
Up to \$5,000	10%	5% federal + 16% provincial	25%
\$5,001 – \$15,000	20%	10% federal + 16% provincial	25%
Over \$15,000	30%	15% federal + 16% provincial	25%

<sup>1</sup> For non-residents of Canada, withholding tax is 25% unless reduced by a treaty.

### Home Buyers' Plan (HBP)

Requirement	Details
Eligibility	Cannot have lived in a home owned by the client, the client's spouse or common-law partner between January 1 <sup>st</sup> of the fourth year before the year of withdrawal, and the 31 <sup>st</sup> day before the withdrawal. Other conditions apply.
Limits	\$25,000 per participant.
Repayment <sup>1</sup>	1/15 <sup>th</sup> per year beginning the second year following the year of withdrawal, payable by 60 days into the following year.

<sup>1</sup> Any amount that is not repaid will be added to taxable income.

### Lifelong Learning Plan (LLP)

Requirement	Details
Eligibility	The client, client's spouse or common-law partner must be enrolled full-time (part-time for disabled students) at a designated educational institution before March 1 <sup>st</sup> of the year following the year of first withdrawal, in a qualifying educational program of at least three months duration with 10+ hours of weekly course work. Other conditions apply.
Limits	\$10,000 per year to a maximum of \$20,000 over four years.
Repayment <sup>1</sup>	Generally, 1/10 <sup>th</sup> per year, with the first repayment due 60 days after the fifth year following the first withdrawal. Repayments may commence in the second year following the withdrawal, if the course is completed in the year of withdrawal. For complete details, please visit <a href="http://www.cra-arc.gc.com/myaccount">www.cra-arc.gc.com/myaccount</a> .

<sup>1</sup> Any amount that is not repaid will be added to taxable income.

**Payment Rates - Canada Pension Plan and Quebec Pension Plan**

Type of Benefit	Canada Pension Plan Maximum Monthly Benefit (2010)	Quebec Pension Plan Maximum Monthly Benefit (2010)
Retirement Pension (At Age 65)	\$934.17	\$934.17
Max Disability Benefit (Under Age 65)	\$1,126.76	\$1,126.73
Survivors Benefit (Under Age 65)	\$516.57	\$776.41 <sup>1</sup>
Survivors Benefit (Age 65 and Over)	\$560.50	\$560.50
Children of Disabled Contributors Benefit	\$214.85	\$68.22
Children of Deceased Contributors Benefit	\$214.85	\$68.22
Combined Survivors and Retirement Benefit (Retirement at Age 65)	\$934.17	\$934.17
Combined Survivors and Disability Benefit	\$1,126.76	N/A
Death Benefit (Max Lump Sum)	\$2,500.00	\$2,500.00

Source: Service Canada.

<sup>1</sup> Between 45 – 64 years of age.

**Retirement Income Fund (RIF) Minimum Withdrawal Amounts**

Fair market value of RIF on December 31<sup>st</sup> multiplied by prescribed factors below

Age	General	Qualifying RIFs <sup>1</sup>
60		0.0333
61		0.0345
62		0.0357
63		0.0370
64		0.0385
65		0.0400
66		0.0417
67		0.0435
68		0.0454
69		0.0476
70		0.0500
71	0.0738	0.0526
72	0.0748	0.0556
73	0.0759	0.0588
74	0.0771	0.0625
75	0.0785	0.0667
76	0.0799	0.0714
77	0.0815	0.0769
78		0.0833
79		0.0853
80		0.0875
81		0.0899
82		0.0927
83		0.0958
84		0.0993
85		0.1033
86		0.1079
87		0.1133
88		0.1196
89		0.1271
90		0.1362
91		0.1473
92		0.1612
93		0.1792
94 or older		0.2000

<sup>1</sup> A qualifying RIF is generally a retirement income fund entered into before 1993. Between the ages of 71 and 77 the diagram above illustrates the minimum payments of set up after December 31<sup>st</sup>, 1992.

**Old Age Security Benefit Payment Rates (Oct. - Dec. 2010)<sup>1</sup>**

Type of Benefit	Recipient	Average Monthly Benefit (July 2010)	Maximum Monthly Benefit	Maximum Annual Income
Old Age Security (OAS) Pension	All Recipients	\$410.30	\$521.62	\$66,733*
Guaranteed Income Supplement (GIS)	Single Person	\$447.67	\$658.40	\$15,816
	Spouse of Pensioner	\$283.53	\$434.78	\$20,880
	Spouse of Non-Pensioner	\$417.98	\$658.40	\$37,920
	Spouse of Allowance Recipient	\$371.99	\$434.78	\$37,920
Allowance	All Recipients	\$387.25	\$956.40	\$29,232
Allowance For The Survivor	All Recipients	\$566.31	\$1,060.15	\$21,288

Source: Service Canada.

<sup>1</sup> For eligible recipients aged 65 or over. OAS benefits are reviewed quarterly and generally indexed to CPI.

**\*Old Age Security Clawback**

- If your net income before adjustments exceeds \$66,733, you must repay part or all of the maximum OAS pension amount.
- If your net income is greater than \$66,733, then the repayment amount is 15% of the excess over this amount.
- Repayment amounts are normally deducted from their monthly payments before they are issued.
- The full OAS pension is eliminated when a pensioner's net income is \$108,214 or above.

## Retirement Planning

Consumer Price Index (CPI)		
Year	CPI	% Change
1951-1960	-	12.3
1961-1970	-	29.3
1971-1980	-	110.5
1981-1990	-	58.4
1991-2000	-	15.2
2001	97.8	2.5
2002	100	2.2
2003	102.8	2.8
2004	104.7	1.8
2005	107	2.2
2006	109.1	2.0
2007	111.5	2.2
2008	114.1	2.3
2009	114.4	0.3

Source: Statistics Canada. Base Year: 2002 = 100.0.

### Did you know?

Investing on behalf of a child under age 18 outside of an RESP can pose tax problems for the adult contributor. Under the Canadian Income Tax Act, income other than capital gains is "attributed" to the adult and capital gains are taxed in the hands of the child provided that the donor is related to the child. The tax burden can be reduced by investing in a corporate class mutual fund, which allows you to defer taxes.

## How to Manage Personal Tax Information and More Online

The Canada Revenue Agency offers secure access to personal tax information through their website service called "My Account." It includes information about tax refunds or balance owing, RSP, Home Buyers Plan, Lifelong Learning Plan, Tax-Free Savings Account and more.

Visit [www.cra-arc.gc.ca/myaccount](http://www.cra-arc.gc.ca/myaccount) for more information.

## Education Planning

Registered Education Savings Plans (RESPs)	
Restriction	Details
Contribution Maximum	Starting in 2007, there is no annual limit for contributions to RESPs. For each beneficiary, the lifetime limit on the amount that can be contributed to an RESP is \$50,000.
Contribution Age Limit	Contributions can be made until December 31 of the 31 <sup>st</sup> year following the year the plan is entered into. Family plan only: final contribution must be made before the beneficiary's 31 <sup>st</sup> birthday.
Plan Age Limit	RESP must be collapsed before December 31 of the 35 <sup>th</sup> year following the year the plan is entered into.
Tax On Overcontribution	1% per month of the overcontribution amount at the end of the month.
Basic Canada Education Savings Grant (CESG)	20% on the first \$5,000 of annual contributions made to all eligible RESPs for a beneficiary, to an annual maximum of \$1,000, until the end of the year in which the beneficiary turns 17. Additional contribution requirements apply to beneficiaries who are 16 or 17. Unused CESG grant room may be carried forward for possible use in the future. Lifetime maximum CESG amount per beneficiary is \$7,200. Please refer to CCRA for more information.
Additional CESG <sup>2</sup> (effective January 2005)	Family Income under \$40,970 <sup>1</sup> : CESG on the first \$500 in annual RESP contributions is 20%. Family Income between \$40,970 <sup>1</sup> and \$81,941 <sup>1</sup> : CESG on the first \$500 in annual RESP contributions is 10%.
Canada Learning Bond <sup>2</sup> (CLB, effective January 2005)	Provides \$500 at birth and \$100 annually (to a maximum of \$2000) until age 15 for children born after 2003 to families entitled to the National Child Benefit Supplement (paid only in the years when the family's income qualifies).
Alberta Centennial Education Savings (ACES) Plan <sup>2</sup> (effective January 2005)	Provides \$500 grant into RESP for children born into or adopted by an Alberta family with a date of birth on or after January 1, 2005 without regard for family income levels (additional grants of \$100 available at age 8, 11 and 14 if a minimum deposit of up to \$100 is made to an RESP during the previous year, and subject to other conditions).
Quebec Education Savings Incentive <sup>2</sup> (QESI, effective February 2007)	10% on the first \$2,500 of annual contributions (with greater support for families that qualify based on lower income) up to a lifetime limit of \$3,600 per child. The child must be named as a beneficiary of an RESP, be a resident of Quebec at the end of the year, and meet other eligibility requirements.
Educational Withdrawals	<b>Educational Assistance Payment:</b> Grant monies and accumulated income payable to the beneficiary and taxable as earned income for the beneficiary.
	<b>Post-Secondary Educational Capital Withdrawal:</b> Payable to subscriber who may gift it to beneficiary or retain it for him/herself without a tax penalty.
Non-Educational Withdrawals	<b>Accumulated Income Payment:</b> Subject to certain conditions, payable to subscriber who can transfer amount to his/her RSP (subject to availability of RSP contribution room). If taken as cash, amount is taxable based on subscriber's marginal tax rate plus an additional 20% withholding tax. The money can also be gifted to an educational institution.
	<b>Non-Educational Capital Withdrawal:</b> Triggers the requirement to pay back CESG equal to 20% of the amount of the withdrawal.

Source: Canlearn.

<sup>1</sup> For 2010, amount updated each year based on inflation rate.

<sup>2</sup> These are optional programs and are currently not offered in the TD Mutual Funds Education Savings Plan. Please contact your TD Mutual Funds Sales Team for more information.

All information contained in this document was updated based on availability of data as of October 31<sup>st</sup>, 2010. The statements contained herein are based on material believed to be reliable. Where such statements are based in whole or in part on information provided by third parties, they are not guaranteed to be accurate or complete. This document does not provide individual financial, legal, tax or investment advice and is for information purposes only. Particular investment or trading strategies should be evaluated relative to each individual's objectives and risk tolerance. TDAM, The Toronto-Dominion Bank and its affiliates and related entities are not liable for any errors or omissions in the information or for any loss or damage suffered. TD Mutual Funds is a trade-mark of The Toronto-Dominion Bank, used under license.