# Counsel *Special Report*

## THE 2008 FEDERAL BUDGET PLAN IN REVIEW

The 2008 Federal budget lays emphasis on preparing the Canadian economy for a potential slowdown in global economic growth. Canada's Department of Finance projects that the Canadian economy will expand by 1.7% in 2008, significantly below its earlier expectations of 2.4%.

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Hence, the budget provided little cheer for investors looking for generous personal tax relief. There was also little to get excited over in terms of any lavish government spending. The government is instead focused on reducing overall government debt and on being prudent in the current environment of economic uncertainty.

### HERE ARE FIVE HIGHLIGHTS FROM THE 2008 FEDERAL BUDGET

1. **Tax Free Savings Account (TFSA): An incentive for Canadians to save. Expected to benefit mainly low and middle income earners as well as seniors.**

- This tax sheltered savings account will allow individuals 18 years of age and older to contribute up to $5,000 annually to a TFSA account from 2009.
- Individuals will be allowed to carry-forward unused portions of this $5,000 allowance into future years with the annual contribution limit indexed to inflation in $500 increments.
- Contributions will not be tax deductible while capital gains or any other investment income earned within the TFSA will be tax exempt. Withdrawals from a TFSA will be tax free.
- Qualified investment for a TFSA will be similar to those allowed for under a qualified RRSP, including stocks, bonds and mutual funds.
- Spousal contributions are allowed, up to the contributor's maximum limit of $5,000.

Choosing between a TFSA and a qualified RRSP will depend on the specific needs of an investor.

RRSPs may make more sense if the tax rate at withdrawal is expected to be lower than the tax rate at the point of original contribution. Investors can use a TFSA to save for specific needs. Seniors over 71, who no longer qualify for contributions to RRSPs, can use a TFSA to supplement a retirement savings plan.

2. **Increased flexibility to withdraw from Federal Life Income Funds: Improved access to funds in these accounts.**

- Individuals 55 years of age and older with small balances (less than $22,450) in LIF holdings will be able to wind up their accounts with the option of converting it to a tax deferred savings vehicle.
- One time conversion of up to 50% of LIF holdings to a tax deferred savings vehicle with no minimum withdrawal limit.
- Ability to unlock funds in times of financial difficulty (maximum of $22,450).

3. **Registered Education Savings Plan (RESPs): Increased flexibility.**

- Maximum contribution period extended by 10 years, allowing individuals to contribute to an RESP for up to 31 years. There is no change in the education grant.

4. **Guaranteed Income Supplement (GIS): Higher GIS exemption to benefit low income seniors.**

- Full exemption of first $3,500 in earnings from $500 at present. It will allow GIS recipients to keep more of their income.

5. **Dividend tax credits: Reduced dividend gross-up and dividend tax credit rate for eligible dividends to reflect corporate tax reductions announced in 2007.**

- Eligible dividend gross-up will be reduced to 44% effective January 1, 2010 from current level of 45%, 41% in January 1, 2011 and 38% in January 1, 2012. Meanwhile, the dividend tax credit will be reduced to 18% from 19% currently. It will fall to 16.5% in 2011 and 15% the following year. As a result, tax on dividends will go up marginally.

Speak to your advisor to discuss how the 2008 Federal budget could affect your investment strategy.

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