



Patti Shannon

McLean & Partners Wealth Management provides investment advisory services to high-net worth individuals, trusts and not-for-profit organizations. The firm manages portfolios through both segregated accounts and pooled investment vehicles. While we invest in public equity and fixed income markets across the globe, our primary focus is to invest in dividend-producing growth stocks. Find out more at www.mcleanpartners.com.

Trusts and your RSP

With changes to income trust taxation rules, how trust investments are handled needs to be examined

It's that time of year again. If you haven't already done so, it's time for you to consider contributing to your registered savings plan (RSP) for the 2010 tax year. When you are making your contribution, take the time for a check to see if any of the following three considerations apply to you:

INCOME OR ROYALTY TRUSTS AND RSPS

In general, income and royalty trust distributions are a combination of return of capital and "other income." Return of capital reduces your cost base, resulting in a potential future capital gain (effectively taxed at 20 per cent). "Other income" is taxed at 39 per cent for investors in the highest marginal tax bracket. Given a choice, many investors chose to hold income and royalty trust investments inside their RSP. This was either to most effectively tax shelter the higher distributions associated with the trusts, or simply because inside an RSP there was no need to do those annoying return of capital calculations!

Now however, as the income trusts convert to corporations, their distributions become "eligible dividends" and are essentially taxed at 15.9 per cent in the top marginal tax bracket.

What to do

Check your RSP for any high dividend paying stocks. If you have any, they can be "swapped" out of the RSP account and into a non-registered account. You would simply move an investment and/or cash of equal value into the RSP for whatever investment you want to move out. In general, the types of investments that are more efficient inside an RSP account from a tax point of view are:

- Bonds
- Real estate income trusts — especially those with a low percentage of the distribution attributed to return of capital.
- Foreign dividend paying stocks — these are not eligible for Canadian dividend tax credit. Many countries like the

United States do not apply non-resident withholding tax for dividend paying stocks held within RSPs.

- Non-dividend paying stocks

Last day for RSP contributions for the 2010 tax year:

Tuesday, March 1, 2011

CHECK THE BENEFICIARY DESIGNATION FOR YOUR RSP

The Federal Income Tax Act allows for the deferral of tax payable on RSP assets that are "rolled over" to the registered plan of a "qualified beneficiary." The qualified beneficiary is usually a spouse or a common-law spouse but may also be a financially dependent child or grandchild under the age of 18, a financially dependent and mentally or physically disabled child or grandchild, or an institution like a charity.

If no beneficiary is indicated or the "estate" is named as a beneficiary, the fair market value of the RSP will be included in the deceased person's income for the year of death and taxed accordingly. However, a special election can be filed by the deceased's legal representative and jointly with the qualified beneficiary to roll over all or part of the plan to the eligible spouse. ►

How can you check your RSP limit?

- **Check last year's income tax Notice of Assessment**
- **Call the Tax Information Phone Service at 1-800-267-6999**
- **Use the Canada Revenue Agency's quick access service online**

Having a beneficiary designated has the added benefit of easy access to cash for the beneficiary, especially since other assets may be frozen until the will is probated.

What to do

Phone your financial advisor and ask them to confirm that you have a designated beneficiary on your RSP account. A beneficiary can be changed if desired with a written letter to your financial institution.

INCOME SPLITTING: DO YOU NEED A SPOUSAL RSP?

The whole concept of income splitting is to even out the tax burden for a couple. Typically, a couple paying taxes at similar rates pays less tax than a couple paying taxes at one higher and one lower rate. Starting with the 2007 tax year, individuals 65 and older can convert an RSP to a retirement income fund (RIF) to provide withdrawals that may be considered as eligible pension income. This will entitle the RIF holder to allocate to his or her spouse, or common-law spouse, up to 50 per cent of their qualifying pension income.

Given the above, when would a spousal RSP still make sense?

Any individual who wants to split more than 50 per cent of their pension income might want to consider this option. With a spousal RSP one could transfer up to 100 per cent of their RSP income to a lower-income spouse or partner.

A spousal RSP would still make sense if you plan to retire before age 65. Pension income from the RIF can only be split at

The 2010 contribution limit is 18 per cent of the previous year's earned income to a maximum of \$22,000, minus the pension plan adjustment if you are a member of a pension plan or deferred profit-sharing plan.

age 65 and older. Keep in mind that withdrawals from a spousal plan are taxable in the hands of the contributing spouse, to the extent that contributions were deducted by the spousal contributor in the current year and in the two calendar years preceding the year of withdrawal.

If you are over 71 and can no longer contribute to your own RSP and you have earned income, you would still be able to contribute to a spousal RSP as long as your spouse or partner is under the age of 72.

What to do

Contact your financial or tax advisor to determine if you or your spouse is eligible based on your age and income to take advantage of income splitting. If so, your financial adviser will need to open a spousal RSP account for yourself or your spouse.

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HISTORY CHALLENGE


What company wanted this?

Send your correct answer to historybook@oilsandsreview.com by February 28, 2011, to be entered to win.*

The full story on this dominating oilsands producer and its peers in early oilsands development will be revealed in Joyce E. Hunt's *Local Push, Global Pull: The Previously Untold History of the Athabasca Oilsands, 1900-1930!*

* One winner will be drawn on the first of each month in January, February and March. Winners will receive a first edition copy of *Local Push, Global Pull* upon anticipated release in Spring 2011.

The answer to last month's question is: Alfred von Hammerstein
The winner of the first draw is: Reg Stark, Kelowna, BC



Library Archives Canada/Indian and Northern Affairs:
RG85 Vol. 1863 file 143207

Name the company who tried to buy exclusive petroleum rights to all this land in 1917 to win!

Hints:

- It hoped that a perceived looming shortage of oil would convince the Canadian government it was a good idea
- It was planning to build pipelines to the West Coast to ship oil overseas
- It has now been operating in Canada for 100 years, and is a key oilsands player

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