

# Never Think NEVER

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## Sheltering Your Hard Earned Cash: Non-RRSP Investments with Tax Benefits

*RRSP investments are the key to a strong financial strategy because of the tax benefits they provide. That is why the financial planners and advisors<sup>1</sup> at Desjardins recommend them so highly.*

But did you know that there are many non-RRSP investments that also offer tax benefits? At Desjardins, we offer this type of investment to our members when they:

- Have acquired a considerable amount of liquid assets, through an inheritance, or the sale of their home or business
- Have maximized their RRSP contributions or have limited unused RRSP contribution room
- Are approaching retirement age

To increase returns from non-RRSP investments, tax rules must be taken into account, as not all non-RRSP investments are taxed the same way (see box).

### Different Choices – Different Tax Treatments

Non-RRSP investments are taxed differently, depending on whether they generate interest, dividends or capital gains.

**INTEREST-BEARING INVESTMENTS:** The most expensive, since interest is 100% taxable.

**DIVIDEND-BEARING INVESTMENTS:** Entitle you to a tax credit of 19% (federal) and 11.90% (provincial) on the amount of the dividend grossed up by 45%.

**CAPITAL GAINS:** Only 50% of your total capital gain is subject to income tax.

Furthermore, given the variety of products available, your choice should reflect your needs, your situation and your priorities. So why not add a tax savings as well!

Below is an overview of the various possibilities available.

### Want to protect your assets?

**Vision Universal Life Insurance<sup>2</sup>** – In addition to being one of the few non-taxable non-RRSP investments available, this insurance policy offers numerous other advantages as well, such as a life insurance portion to ensure the financial security of your loved ones and protect them from estate creditors. It also includes an investment portion offering highly attractive investment opportunities. The money you invest is first used to pay your premiums and the rest constitutes the savings portion that will grow, tax-sheltered. The non-taxable interest it generates is much higher than that on a regular chequing account.

### Want to ensure financial support for your loved ones?

**Testamentary trust<sup>3</sup>** – If you are looking to provide your loved ones with a regular income and reduce their tax burden after your death, creating a testamentary trust can be a good way to go. It allows you to spread out the distribution of your estate over time, as you see fit, thereby ensuring that your legacy does not run out too quickly. In addition, your heirs will be taxed according to their individual income brackets, as opposed to paying taxes up front on the total.

**RESPs, to prepare for your children's future** – This is an excellent way to save money to finance post-secondary education for your children, grand-children or other children you would like to provide for. The money is held in a Desjardins Registered Education Savings Plan and, subject to certain criteria, may make you eligible for the Canada Education Savings Grant (CESG) and the Québec education savings incentive (IQÉÉ) of up to \$750 per year all together (annual base maximum: \$500 federal and \$250 provincial). If the beneficiary chooses not to continue in school, your investment is not lost, as you can transfer the money into your own RRSP.



## Want to optimize your non-RRSP portfolio growth?

**Northwest Corporate Class<sup>4</sup>** – This innovative product allows you to take advantage of your tax savings as leverage to increase your portfolio. It is composed of ten Northwest Funds and five Quadrant portfolios. You can transfer units among these funds and portfolios as you see fit, so you can take advantage of growth opportunities with no immediate tax impact. Your income taxes are deferred until you liquidate your Northwest corporate shares, allowing you to optimize your non-RRSP portfolio returns. The example given shows how the same amount invested in Northwest Corporate Class can prove much more profitable when transferring funds than if it were invested in a mutual trust fund, where capital gains are taxed as soon as a transfer is carried out between funds.

### Example of the same \$100,000 investment in two different situations:

	Mutual Fund Trust	Northwest Corporate Class
Purchase: Northwest U.S. Equity Fund units	\$100,000	\$100,000
Transfer: Northwest U.S. Equity Fund units to Northwest Canadian Equity Fund units. Fair market value at time of transfer	\$130,000	\$130,000
Capital gain	\$30,000	\$30,000
Taxable capital gain	\$15,000	\$0
Income tax on capital gain*	\$6,750*	\$0
Net purchase: Canadian Equity Fund units	\$123,250**	\$130,000
<b>Advantage of Northwest Corporate Class: \$6,750 more remains invested</b>		

\* In this example, a 45% marginal tax rate is assumed.

\*\* In this example, it is assumed that the amount reinvested takes into account the income tax to be paid on the capital gain following the sale.

## Want to receive a stable monthly income that provides a tax advantage?

**Fixed monthly income investments** – This type of investment is ideal if you are approaching retirement or already retired and already have a non-RRSP portfolio. It provides you with a regular cash income and clear tax advantages. In fact, a percentage of the income that it generates is subject to an income tax deferral. Furthermore, this percentage does not affect your Old Age Security pension – another major benefit. Desjardins offers you a choice of eight funds<sup>4</sup>, each of which provides an attractive domestic and foreign capital market outlook. These funds will also be available in May's key portfolios, designed for to meet income needs.

## Want to strengthen your social commitments?

**Planned giving** – Planned giving is an excellent choice for providing long-term support to a favourite charity, while giving you attractive tax deductions. Deposited in a permanent endowment fund to benefit the charity of your choice, your donation is managed by Desjardins Investment Management. The capital remains in the fund permanently, and only the interest is used to finance philanthropic projects. In addition, your donation entitles you to a tax credit.

**Capital régional et coopératif Desjardins** – This public corporation managed by Desjardins Venture Capital was created to promote the growth and reach of businesses in Québec's resource regions. By investing in CRCD, you receive a 50% non-refundable provincial tax credit and long-term return potential; you also contribute to the economic growth of Québec. Shares in Capital régional et coopératif Desjardins are exclusive to the Desjardins caisses. The maximum annual investment is \$5,000.

## Want to sell your business?

**Specialized financial planning<sup>3</sup>** – Preparing for the smooth transfer of your business to your children or business partners? Selling equipment or real estate? These are highly complex transactions. Together with Desjardins experts, we can support you throughout the process and indicate the best strategies for avoiding legal disputes and reducing the post-transfer tax burden.

**As you can see, a variety of solutions can be put together, depending on your personal needs and expectations. And there are many others as well, such as investment loans, for which you can deduct the interest expense off your income taxes. Come in and discuss it with us today, so you can make the most of the profitable solutions available to you.**

- 1 Financial planners act on behalf of Desjardins Financial Services Firm Inc.
- 2 Offered by a financial security advisor at Desjardins Financial Security, Financial Services Firm.
- 3 Testamentary trusts and specialized financial planning are offered by our financial planning firm, Desjardins Trust Inc.
- 4 Desjardins Funds and Northwest Funds are offered by Desjardins Financial Services Firm Inc. mutual fund representatives. Desjardins Financial Services Firm Inc. is a company belonging to Desjardins Group. Desjardins Funds and Northwest Funds are not guaranteed, their value fluctuates frequently and past performance is not indicative of future returns. Commissions, trailing commissions, management fees and other costs are all associated with investing in a mutual fund and using an asset distribution service. Please read the simplified prospectus before investing.

The distribution amount is not guaranteed; however it will change only if required due to long-term market conditions.



Money working for people

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