LAURENTIAN BANK

Press release

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LAURENTIAN BANK OFFERS TAX PLANNING TIPS AND ADVICE

Montréal, February 15 2011 – At Laurentian Bank, financial planners are able to offer specialized expertise in analyzing all aspects of long-term planning, including from a tax standpoint where certain rules can prove quite advantageous under specific circumstances. This is the case, for example, with respect to new government measures implemented over the past few years like the TFSA and income splitting among spouses, which have created new ways to reduce the burden of taxpayers.

Tax planning can be very beneficial not only for high-income earners, but also for middle class taxpayers and even for those with modest revenues. In order to take advantage of the measures allowing for tax savings, it is important to be familiar with them and to know how to assess their impacts.

RRSPs and TFSAs: Invaluable Tax Saving Vehicles

Since its introduction in 1957, the Registered Retirement Savings Plan (RRSP) has constituted a prime retirement savings vehicle while offering significant tax benefits. Contributions to RRSPs open the way to substantial tax savings by reducing an individual's taxable revenue. They also provide greater access to a number of tax credits and government payments. As such, they significantly decrease the actual cost of RRSP investment in terms of net payout.

"Because of their inherent flexibility," explains Stéphane Girard, Manager of Financial Planning at Laurentian Bank, "RRSPs offer additional tax benefits as well, including for those wanting to return to full-time studies, or in conjunction with the Home Buyers Plan (HBP). When purchasing a first home, the buyer is eligible to make tax-free withdrawals from their RRSP of up to $25,000, which allows them to considerably reduce the size of their mortgage loan."

For its part, the TFSA (Tax-Free Savings Account) allows Canadian taxpayers aged 18 and over to make contributions of up to $5,000 that are non-taxable both federally and provincially. In addition, unused contributions can be carried over to subsequent years indefinitely, thereby making this an exceptional personal savings mechanism. The TFSA is also highly flexible, and while the tax savings may appear modest from a short-term perspective, the long-term results can be substantial, particularly if the selected formula's return is attractive.

"RRSPs and TFSAs have very different characteristics, but both represent additional savings vehicles, and it would be quite advantageous for taxpayers to combine them," underlines Stéphane Girard. "Those with sufficient saving capacity to make full use of the two vehicles each year stand to gain the maximum benefits. Nevertheless, an investment in either could constitute an appropriate strategy, depending on the saver's particular situation."

The Registered Education Savings Plan: An Investment in the Future

The Registered Education Savings Plan (RESP) is a tax-exempt savings account for education purposes designed to help parents and grandparents save for a child's postsecondary schooling. "The current debate on lifting the freeze on tuitions reinforces the importance of planning for the costs of children's education," Stéphane Girard points out. "Fortunately, RESPs are available and may be subject to more favourable changes from one year to another."

The RESP offers a federal subsidy of 20% on the first $2,500 of annual contributions. In the case of families with medium and modest incomes, this subsidy could amount to 30% or 40% of the first $500 of annual contributions for each child. There is also a Québec subsidy equal to half the federal grant, thus bringing the basic subsidy rate to 30% of contributions to the RESP. Annual payments into this plan are not deductible for the contributor, however, the return can accumulate tax-free during a maximum period of approximately 35 years. As such, these subsidies allow contributors to amass significant sums over a number of years for their children's or grandchildren's studies. The maximum federal subsidy for one child could be as much as $7,200 over 18 years, while the provincial grant could reach $3,600.

Splitting Retirement Revenues to Reduce Tax Rates

The anxiously awaited measure of splitting pension income among spouses was introduced by the federal and provincial governments in 2007, much to the delight of many a couple. This measure offers particular benefits to couples where one of the spouses has substantially higher retirement income while the other's is more modest. In some cases, the annual tax saving could actually amount to several thousand dollars. According to Stéphane Girard, "by splitting the two incomes, the spouse with the higher revenue can drop to a much more favourable tax bracket. In so doing, the spouse's tax rate will be considerably lower, and the couple will enjoy significant tax savings while their combined revenue remains the same."

Effective tax planning involves a series of actions employed throughout the year based on existing circumstances, as well as on regularly occurring changes in tax laws. Laurentian Bank's financial planners are in a position to provide valuable advice about all the possibilities available to individuals, families and companies for easing their tax burden.

About Laurentian Bank
Laurentian Bank of Canada is a banking institution operating across Canada and offering its clients diversified financial services. Distinguishing itself through excellence in service, as well as through its simplicity and proximity, the Bank serves individual consumers and small and medium-sized businesses. The Bank also offers its products to a wide network of independent financial intermediaries through B2B Trust, as well as full-service brokerage solutions through Laurentian Bank Securities.

Laurentian Bank is well established in the Province of Quebec, operating the third-largest retail branch network. Elsewhere throughout Canada, it operates in specific market segments where it holds an enviable position. Laurentian Bank of Canada has more than $23 billion in balance sheet assets and more than $15 billion in assets under administration. Founded in 1846, the Bank employs more than 3,600 people.

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