

## The New Year brings a new way to earn tax-free returns

### Tax-Free Savings Accounts expand planning opportunities for investors

The 2008 federal budget introduced a welcome new vehicle for investors — a Tax-Free Savings Account (TFSA). Initially available in January 2009 to all Canadian residents 18 or older, these accounts will give investors the opportunity to earn tax-free investment growth without many of the restrictions that apply to Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs), and Registered Education Savings Plans (RESPs).

Here's a look at how the TFSA works, how it differs from registered plans, and how you can make the most of it.

#### THE GROUND RULES

Under the government's new rules, you will be able to contribute up to \$5,000 each year to a TFSA. If you don't contribute the full amount, the unused portion can be carried forward indefinitely. Contributions are not tax-deductible.

Your money can be invested in a wide range of vehicles — from savings plans, mutual funds, and GICs to stocks and bonds. Interest, capital gains, and dividends earned on your TFSA investments are not taxed, just as with RRSPs, RRIFs, and RESPs.

Unlike RRSPs and RRIFs, however, TFSA withdrawals are not taxable either. In addition, if you withdraw money from your TFSA, that amount is added to your contribution room for the following year.



#### GREAT FOR SHORT-TERM SAVINGS

Because it is so flexible, the TFSA is an ideal vehicle for short-term savings. Here's an example.

Let's say that Brett is saving to do some home renovations. He deposits \$5,000 a year into his TFSA in 2009, 2010, and 2011, and invests the money conservatively. By 2012, his \$15,000 contribution has grown to \$16,500. He's now ready to proceed with the renovation and withdraws all of the money.

If the money had been invested in an RRSP, Brett would have been taxed on the withdrawal — and the amount he withdrew could never be restored to his RRSP contribution limit.

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## THE NEW YEAR BRINGS A NEW WAY TO EARN TAX-FREE RETURNS

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Because Brett invested in a TFSA, there will be no tax to pay. His \$16,500 withdrawal is added to his contribution room for the following year. If Brett didn't invest any funds into his TFSA in 2012 or 2013, his TFSA contribution limit would now be \$26,500. This consists of \$16,500 of restored room and \$5,000 of new room for both 2012 and 2013. So if Brett receives an inheritance or other type of windfall in 2013, he could deposit up to \$26,500 into his TFSA, replenishing the account and continuing to earn tax-free growth.

### GREAT FOR LONG-TERM SAVINGS

A TFSA can also be used for long-term savings. It has a key advantage over RRSPs and RRIFs when it comes to setting aside money for retirement: TFSA withdrawals are not considered taxable income.

As a result, withdrawals from your TFSA will have no impact on your marginal tax rate. In addition, TFSA withdrawals will not affect your eligibility for income-dependent benefits such as Old Age Security (OAS) and the Guaranteed Income Supplement (GIS).

For a retired person, the difference can

be significant. Let's say another investor, Rachel, accumulates \$250,000 in an RRSP and \$200,000 in a TFSA by the time she retires at age 65.

In her first year of retirement, she transfers her RRSP to a RRIF and withdraws \$75,000. Even if she has no other income whatsoever, her RRIF withdrawal will put her combined federal and provincial marginal tax rate at about 40%\*. She would pay \$18,000 in tax and be left with just \$57,000.

Furthermore, she is likely to lose part of her OAS entitlement. Clawbacks begin when net income exceeds \$64,718 (in 2008) and OAS is eliminated at \$105,043.

If, instead, Rachel delayed converting her RRSP to a RRIF and instead withdrew \$75,000 from her TFSA, she would not pay any tax on this amount and the withdrawal would have no impact on her OAS or other income-tested government benefits.

When she later converts to a RRIF, she can arrange for just minimum withdrawals, taking the majority of her funds from her TFSA. Funds withdrawn from her RRIF can also be contributed to her TFSA, up to her allowable contribution

limit, where they can continue to earn tax-deferred income.

### BUILD YOUR OWN TFSA STRATEGY

A TFSA may also be an ideal solution if you're saving for your children's education. While it doesn't offer Canada Education Savings Grants like an RESP, you can withdraw money at any time from your TFSA for any purpose — whether or not your child attends a qualifying post-secondary educational program. It can also be used to fund private school tuition, something that cannot be done with RESPs.

So whether you're saving for a short-term goal such as a renovation, vacation, or new car, or a longer-term goal such as retirement or your children's education, a TFSA may play an integral role in helping you reach your target.

To find out more about how a TFSA may enhance your overall financial plan, speak with your CIBC Financial Advisor. Together, we can assess your personal situation and discuss how a TFSA could complement your existing savings and investing vehicles, including RRSPs, RRIFs, RESPs, and non-registered accounts.

## TFSA highlights

- Maximum annual contribution: \$5,000
- Unused contributions are carried forward on a cumulative basis
- Money grows tax-free within the plan
- No tax on withdrawals
- Withdrawals from a TFSA can be replenished in a future year
- Withdrawals have no impact on income-dependent benefits
- Contributions are not tax deductible



# Get ready for back-to-school season

Over the years, RESPs have evolved into powerful savings tools

If you're currently saving for your children's post-secondary education, you may want to take a second look at Registered Education Savings Plans (RESPs). With new contribution limits, larger Canada Education Savings Grants (CESGs), and greater flexibility, these tax-deferred plans are more attractive than ever.

## HIGHER CONTRIBUTION LIMIT

Over the past two years, the federal government has boosted the lifetime RESP contribution limit to \$50,000 (from \$42,000) and eliminated the annual contribution limit.

That means it may make sense for some families to invest larger amounts early in the life of their plan to capitalize on the power of tax-free compounding. Since an RESP can now exist for a total of 35 years (up from 25), with contributions made for 31 years (up from 21), it's now possible to leverage that tax-free compounding even more.

## LARGER GOVERNMENT GRANTS

While the lifetime CESG is still \$7,200, the annual maximum has increased to \$500 from \$400. As a result, you may want to adjust your annual contributions to ensure that the government contributes



as much to your plan as possible, as quickly as possible.

Since the grant matches 20% of your contribution each year, that means depositing \$2,500 annually, rather than \$2,000. If you're catching up on unused CESG room from previous years, keep in mind that the maximum CESG payment in any one year is \$1,000.

## GREATER FLEXIBILITY

While your children are enrolled in a qualifying post-secondary program, they receive Educational Assistance Payments (EAPs) withdrawn from the RESP.

Students can now continue to receive

those EAPs for a period of six months after they leave their program of study. This can help them bridge the income gap between school and their first full-time job.

## A NEW WAY TO SAVE

With their tax-deferred growth and government contributions, RESPs are one of the best ways to save for a child's post-secondary education, but on their own they may not provide enough. To increase your child's education fund, you may want to accumulate additional savings in a non-registered account or in the new Tax-Free Savings Account (see the article on Page 1).

Your CIBC Financial Advisor can help you develop a customized education savings plan that meets your children's needs and allows them to pursue a wide range of post-secondary educational opportunities.

## Invest in your child's future with a CIBC RESP

It is a good idea to start saving money for your child's education. A CIBC Registered Education Savings Plan (RESP) offers flexible investment options that can help you reach your goal.

- **CIBC Managed Portfolio Services®** is an all-in-one investment solution that invests in a mix of savings, income, and growth mutual funds tailored to your investor profile.<sup>†</sup>
- **CIBC RESP GICs** provide a guaranteed rate of return, a 100% guarantee of the principal, compound interest, and are available in terms that range from 1 to 5 years.

Your Financial Advisor can help you determine which investment solutions are the best fit for your child's RESP.

## Do you need an individual RESP or a family plan?

One of the attractions of RESPs is that you can choose the type of plan that best suits your family situation:

- A family plan can have one beneficiary, or several. The person establishing the plan must be related by blood or adoption to each beneficiary.
- An individual plan can be opened by anyone (not necessarily an immediate family member) and has only one child as the beneficiary.

A family plan offers additional flexibility. If one beneficiary decides not to attend a qualifying post-secondary program, the other beneficiaries can take advantage of the pooled money to pay for their schooling. Note that if you set up individual plans for each of your children, you may be able to combine them later into a family plan.

# Going green can be easy

## Four ways to save paper and help the environment

Many Canadians today are thinking about how their actions affect the environment. While there are many options, saving paper is one of the easiest ways to reduce your environmental footprint.

Here are four simple strategies that can help you reduce paper waste as you carry out your day-to-day banking:



**1** Stop getting bills in the mail. Canada Post's epost service ([www.epost.ca](http://www.epost.ca)) lets you receive a wide range of bills electronically.

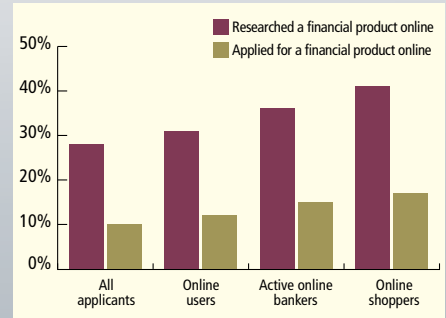
**2** Switch to paperless account statements. Not only do you save paper, but you can view your statements online at any time.

**3** Download brochures from our website. Save yourself the time and cost of travelling to your branch for information by visiting [www.cibc.com/imperial](http://www.cibc.com/imperial).

**4** Consider electronic money transfers (EMTs). These are a fast, secure way to send money.

## TRENDS & INSIGHTS

Canadians are using the Internet for a lot more than just online banking. Of those who applied for a financial product<sup>†</sup> in 2007, more than one quarter (28%) researched it first online. Among those who regularly bank online, the percentage jumps to more than one third (36%); 15% of active online bankers also purchased financial products online.



Base: Canadian financial product applicants

<sup>†</sup>Financial products are defined as auto insurance, chequing accounts, savings accounts, credit cards, GICs, home equity loans, homeowner's insurance, life insurance, mortgages, personal loans, RSPs, and RESPs.

Source: North American Technographics Benchmark Survey, 2007

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\* Based on an Ontario resident in 2008.

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