



# Perspective

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## Not Over Yet

It has been a very tough summer for financial markets and the economy. Stock market investors have been whip-sawed by the reversal in materials and energy stocks as oil prices fell, and by continuing concerns in financial stocks. Anyone who thought we would be immune to the financial woes in the U.S. has been proven wrong and the Canadian economy has slowed markedly despite our stronger domestic economy. While consumers and businesses in Canada are on the whole in better financial shape than in the U.S., we continue to feel the sting of weakening exports, markedly reduced demand for American automobiles and bank losses arising from exposure to the U.S. housing crisis and credit crunch. Unfortunately, it isn't over yet.

The housing meltdown in the U.S. continues as foreclosures rise rapidly, many American homeowners face negative home equity, and the inventory of unsold homes remains high. Despite the plunge in housing starts and a modest lift in existing home sales, the swelling pipeline of vacant housing continues to put downward pressure on house prices, which have already fallen by 19% since their peak in mid 2006. With so many shaky mortgages, the U.S. government's historic takeover of Fannie Mae and Freddie Mac, the government-sponsored mortgage securities agencies, was welcomed to restore confidence and shore up the economy. In this environment, credit conditions remain tight and loan rates are high, despite the Federal Reserve's cut in the overnight benchmark rate from 5.25% to 2.0% in the past year.

Households in Canada and the U.S. feel pinched by the rise in energy, gasoline and food prices as employment

contracts. Compound that with considerable declines in the stock market and it is no wonder that investors are nervous. I wish I could say that the all-clear signal will be heard very soon, but I can't. The final quarter of this year will be challenging and the economy will strengthen only gradually next year as the U.S. housing market finally bottoms. The stock market will turn before the economy does, but that is likely still some months away. In the meantime, interest rates on government bills and bonds remain low and credit spreads for lesser quality fixed income product remains wide reflecting increased risk amid market uncertainties.

This is the time when trusted Investment Advisors are the most important, helping you to protect your money and take advantage of buying opportunities. Capital preservation and steady growth is crucial to financial security; this is not the time to be hitting for the bleachers—better to remain cautious and take the singles when you can get them. Ironically, as tough as it feels for Canadian investors, the TSX has been the top-performing major stock market so far this year.

As of September 3, 2008

**Dr. Sherry Cooper**

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## Important Information for BCE Shareholders

**T**he upcoming takeover of BCE, led by the Ontario Teachers Pension Plan, is expected to be finalized before the end of the year. Under the terms of the deal, shareholders will receive a cash payment for their shares. This can be a good news / bad news story for some – while many investors will make money from the sale of their shares (also known as realizing capital gains), the money made will be taxed and could result in a large tax bill.

It's important for BCE shareholders to understand the implications of the buyout, before the deal is finalized. What you choose to do with the money you make when you sell your shares will depend on what's important to you. You will need to think about your individual needs, including personal and family income, estate planning and community support.

If you do make money from the buy-out and your shares are held outside of a registered account, there are several strategies you may want to consider to reduce the

amount of tax you will have to pay, including making a charitable donation.

If you donate BCE shares to a qualifying charity, the capital gain realized on the transfer of the security to the charity may be tax-exempt. In addition, you can still obtain a donation tax credit equal to the value of your donation. If considering a charitable donation, it's important to plan ahead and speak with your tax advisor. The tax implications can be complicated and time is of the essence since your donation of BCE shares must be completed before the takeover occurs. If you feel a charitable donation of your BCE shares – or any other qualifying appreciated securities you own – is right for you, consider the BMO Nesbitt Burns Charitable Giving Program.

For more information on how you can reduce tax on capital gains arising from the BCE privatization, please ask your Investment Advisor for a copy of our publication entitled Strategies to Minimize Capital Gains Tax.

# Maximize the Impact of your Charitable Gift with the BMO Nesbitt Burns Charitable Giving Program

**B**y establishing a donor advised fund through the BMO Nesbitt Burns Charitable Giving Program, you can make ongoing contributions to the charities and causes that are important to you, while receiving important tax benefits.

The BMO Nesbitt Burns Charitable Giving Program is offered in partnership with Supporting Your Community through our alliance with Community Foundations of Canada – the national membership organization for Canada’s community foundations.

Through our program, you can set up a donor advised fund with a community foundation for as little as \$25,000. You will benefit from the community foundation’s wealth of experience – drawing on their deep understanding of local issues and causes so that you can make the most of your charitable gift.

Each year, the income earned by your donor advised fund is used to provide grants to the charities you

recommend, while the original investment is left to grow over time.

Your donor advised fund can be personalized with your name, you can involve family members in recommending grants and name successors so that your charitable intentions continue well into the future.

Contributions to your donor advised fund will also receive important tax benefits. Your initial, and any subsequent donations, will qualify for the charitable donation tax credit in the year they are made. In addition, if you donate qualifying publicly traded securities, the capital gains tax is eliminated (qualifying publicly traded securities include shares, bonds and mutual funds).

The BMO Nesbitt Burns Charitable Giving Program offers an easy and tax efficient way to build a lasting legacy for tomorrow – while supporting the causes you care about today. Please contact your Investment Advisor for more information.



# Tax-Free Savings Accounts

In the 2008 federal budget, the government announced the introduction of an exciting new savings vehicle - the Tax-Free Savings Account (TFSA). Starting in January 2009, Canadian residents will be able to contribute to a TFSA and watch their savings grow on a tax-free basis. The TFSA is the most attractive government-sponsored personal savings tool since the introduction of Registered Retirement Savings Plans (RRSPs) in 1957. While an RRSP is primarily intended for retirement, the TFSA can be used for retirement and everything else in life since it offers the flexibility to meet a wide variety of short, medium and long term financial goals such as saving for a new car, a house, or a dream vacation.

## Some Key Details about TFSAs

- Canadians age 18 and older can contribute up to \$5,000 per year into a TFSA. The \$5,000 annual limit beginning in 2009 is indexed to inflation and increases will be made periodically in \$500 increments. There is no lifetime contribution limit – only an annual limit
- Unlike an RRSP, contributions to a TFSA are not deductible for income tax purposes – however all investment income (interest, dividends & capital gains) earned within a TFSA account is not taxable annually or upon withdrawal
- Like an RRSP, unused TFSA contribution room can be carried-forward indefinitely. For example, if you only contribute \$3,500 (vs. \$5,000) to your TFSA in 2009, you can contribute \$6,500 in 2010 (i.e. \$1,500 from 2009 plus \$5,000 for 2010)
- Money can be withdrawn tax free from a TFSA at anytime, and for any purpose
- The dollar value of any withdrawals you make from your TFSA in one year are added to your unused TFSA contribution room in the following year

- A TFSA is generally permitted to hold the same investments as an RRSP
- Neither income earned within a TFSA nor withdrawals from it will affect your eligibility for federal income-tested benefits & credits (e.g. Old Age Security, Child Tax Benefit, GST credit, Age credit)
- You can provide funds to your spouse, common law partner, or adult children allowing them to make a contribution to their own TFSA (subject to the spouse, common law partner or adult child's available TFSA contribution room). None of the income earned within their TFSA would be attributed back to you as source of the funds
- The transfer of existing non-registered investments into a TFSA is considered a deemed disposition at fair market value so taxes are payable on any realized gains (but any realized losses will be denied)
- Contributions can only be made into a TFSA on or after January 2, 2009

TFSA are expected to be quite popular and have broad appeal to all Canadians – however their role in a financial plan relative to other government sponsored savings vehicles will depend on an individual's age, taxable income and financial objectives. Questions such as whether to save for various goals using a TFSA, RRSP or RESP, or to transition assets from a RRIF/LIF to a TFSA need to be given careful consideration. If you'd like to discuss how a Tax Free Savings account fits within your overall financial plan please contact your BMO Nesbitt Burns Investment Advisor.

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