

Perspective

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Risk-Perception Rise is Healthy

Stock markets around the world have been rocked this month by an increasing perception of risk, particularly emanating from Asia. Prior to March, however, stock markets continued to perform well, an uptrend enjoyed since 2003. The recent concerns reflect the instability in the Chinese stock market, following its spectacular rise and announcements by the Chinese authorities that they are targeting slower growth—around 8% this year compared to 10.7% in 2006—which could trigger a subsequent decline in demand for commodities. The People's Bank of China and other government agencies have repeatedly taken measures to slow the overheated pace of infrastructure spending while encouraging domestic consumer demand. This is exactly what the White House and the highly partisan U.S. Congress would like to see to forestall the threat of protectionist legislation.

Also adding to the perception of risk is the substantial increase in delinquency rates in the sub-prime mortgage market—mortgage lending to those with the weakest credit ratings. As interest rates have edged upward over the past few years, such adjustable-rate mortgages are reset, requiring heftier monthly payments. Unfortunately, many institutions—mainly mono-line mortgage lenders—were far too aggressive in making these loans and now the regulatory authorities in the U.S. are clamping down on credit quality, reducing the risk in lenders' new mortgage extensions.

The TSX has fared reasonably well in this environment, up nearly 1% year-to-date, mostly in the materials and energy sectors. Gold stock prices have led the way down as gold prices have fallen over \$85 from their recent highs. The Canadian dollar has also softened, as government bond markets are the beneficiary of a flight to quality. Government of Canada 10-year bond yields have slipped just over 4%, narrowing the spreads a bit from the 4.5% U.S. Treasury yield.

While growth slowed in Canada in the fourth quarter of last year, and steadied in the U.S., we are poised for a rebound this year, albeit a modest one. The Bank of Canada is likely to remain on the sidelines as the Canadian dollar hovers around current levels and core inflation dissipates. The Federal Reserve, on the other hand, may well attempt to settle nervous jitters in the U.S. housing and mortgage markets by cutting interest rates later this year. On balance, we see a recovery in stocks once more realistic credit spreads are priced in the markets; people had been far too sanguine about potential risk, especially in emerging market stocks and bonds as well as some lower-quality mortgage-backed securities.

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Income Splitting for Widows and Widowers by Wendy Templeton

In Canada our tax law can produce savings that may help reduce the financial loss associated with the death of a spouse. While this will not alleviate the pain associated with the death of a spouse, it may significantly increase the after-tax income of a surviving spouse.

What's the catch? It's in planning the Will. A small investment in the preparing of a new Will with a spousal trust can save \$10,000 per annum after tax for each year one spouse survives the other. That can be a big return for doing some income tax and estate planning as opposed to simply having a basic Will prepared.

Let's take an example of a married couple, Larry and Gina Coutts. They are in their 70s and have recently downsized from their home to a condo. The proceeds along with their savings and inheritance have been invested in interest bearing securities. This is held in a joint account that they report 50/50. Their tax situation is summarized below, simplified for the sake of illustration.

Income	Larry Coutts	Gina Coutts	Total
Government Benefits	\$10,000	\$10,000	\$20,000
Interest from portfolio	\$30,000	\$30,000	\$60,000
RRIF	\$32,000	\$20,000	\$52,000
	\$72,000	\$60,000	\$132,000
Income Tax Payable	\$17,500	\$13,400	\$30,900

Larry has a \$250,000 insurance policy. If he died, leaving Gina as the surviving spouse the following would change: Her income would now include all his income, except for the government benefits. In addition, the \$250,000 insurance is invested at 4% for an additional \$10,000/yr. Her income and tax situation would look like this;

Income	Gina Coutts
Government Benefits	\$10,000
Interest from portfolio and insurance	\$70,000
RRIF (Gina's and Larry's)	\$52,000
	\$132,000
Income Tax Payable	\$44,100

Gina's income would remain equal to the income she and Larry earned while he was alive, but her tax bill would increase by more than \$13,000. Why is that? Essentially, the same income is being reported but now it is in one return.

If \$30,000 in income could be shifted to a spousal trust for Gina (set up in Larry's Will), the trust would pay \$6,400 and she would pay \$30,600, for a savings of \$7,100. This savings is possible because a trust created on death gets the same marginal tax rates that Larry had during his lifetime. The only difference is that personal credits are not available to the trust.

Imagine that the estate had to purchase a life annuity for Gina to produce \$10,000 per year. It would cost approximately \$97,800 if Gina is 78 years old and a non-smoker. In addition, a small portion of the annuity would be taxable. That gives you an idea of the potential dollar value of this tax planning opportunity. If \$50,000 is shifted to the trust, the tax savings is \$10,100. A shift of \$60,000 saves \$11,400 in tax.

HERE ARE SOME FREQUENTLY ASKED QUESTIONS:

Q. Does the trust have to be set up now?

A. No – only the terms of the trust need to be established in a new Will.

Q. Is anything else required to be done now?

A. Yes, you need to make sure property passes through the estate on the first death. This may mean ownership of joint accounts must be severed, and beneficiary designations for insurance policies need to be changed to the estate.

Q. How do I know if this strategy will work for us?

A. Consult a tax or legal expert to be sure. If you have unregistered investments, or other funds that would generate investment income during the life of the surviving spouse (even only \$20,000 of income or more), it may be worthwhile. The biggest tax savings is on the first \$30,000 of annual income in the trust.

Q. Does the spouse have access to the trust?

A. Yes. All income should be payable to the spouse and there can be a right to access the capital for the spouse as well.

Q. Does it cost a lot in trustee fees?

A. No. A professional trustee is not required. Family members can be the trustees, and the surviving spouse can be one of several trustees.

Q. Does this plan cost more in probate fees or taxes?

A. It can. In some cases it can cause a prepayment of probate fees, but the income tax savings will usually more than cover the prepayment of these fees within two years or less, and the tax savings continue every year.

Benefits of Partnering with Community Foundations of Canada

by Wendy Burton

Recent changes to federal law make it easier than ever for investors to donate securities without paying any tax on the capital gain. This benefit has led to an unprecedented spirit of giving – resulting in increased support for numerous charities across Canada.

Due in part to this demand, BMO Nesbitt Burns launched a charitable giving program this past winter, as an enhancement to the existing Supporting Your Community alliance between BMO Financial Group and Community Foundations of Canada (CFC). BMO Financial Group formed this alliance with community foundations because of their deep understanding of local issues and charitable giving expertise.

The BMO Nesbitt Burns Charitable Giving Program connects our clients to their local community foundation. Our approach is unique, as we are the only investment firm in Canada to partner with a national charity network. Benefits of the BMO Nesbitt Burns Charitable Giving Program include:

- Convenient, tax-efficient, cost-effective alternative to establishing a private foundation
- Advantage of running your own foundation, without the administrative responsibilities
- Quick setup with as little as \$25,000
- All administration, record-keeping and tax reporting is managed by the participating community foundation on your behalf
- Direct grants to causes and issues that matter most to you – you have the opportunity to specifically direct your giving
- Significant tax advantages on gifts of appreciated securities

Once your donor-advised fund is established with the community foundation, you can recommend that grants be made to your favourite charities or to a specific area of interest, while receiving important tax benefits for donations made to your donor-advised fund. This unique, flexible philanthropic solution provides a simple, efficient way for you and your family to build a lasting legacy for tomorrow, while supporting charitable causes you care about today.

Community foundations provide donors with front-line information on the programs, organizations and needs in their communities, helping them make the most of their charitable giving. Collectively, CFC is one of Canada's largest grant makers with \$137 million gifted to local charities in 2006. By connecting donors to their local community foundation, the BMO Nesbitt Burns Charitable Giving Program is helping clients meet their philanthropic goals in a customized and collaborative way.

For 26 years in a row, BMO Nesbitt Burns has had the top Equity Research team in Canada*

Our award-winning equity research analysts have a long and proven track record of leading industry knowledge and depth of market understanding covering over 400 companies across diverse industry sectors. A kind of knowledge and understanding that helps us build stronger portfolios for our clients.

*Brendan Wood International Survey. Institutional Equity Research, Sales and Trading Performance in Canada, 1981 – 2006. Results apply to BMO Nesbitt Burns and its predecessor firms.

Living the New Retirement – Starting Your Own Business After 50

by BMO Nesbitt Burns Marketing

The idea of starting your own business in your 50s may seem daunting, but making your passion a career and becoming your own boss can be an enriching experience. It may even surprise you to learn that the majority of entrepreneurs in Canada are 50 and over.

Before deciding to take the leap, it's important to weigh your options, ask yourself tough questions, assess your current work and financial situations and seek professional advice. The following checklist can provide you with a starting point:

- **Know Yourself and Your Passion** – While most people view their 50s as a time to slowly transition from full-time work to retirement, starting a business can be a busy and stressful time. If you enjoy challenges and are willing to burn the midnight oil to see your dream become a reality, then you already have two essential qualities of a great entrepreneur.
- **Consider Taking Baby Steps** – If ending one career to begin a new one seems too abrupt and sudden for you, consider taking smaller steps and starting your business part time, while working for your current employer. By doing this, you can begin to lay the foundation of your company while earning a full-time income.
- **Trust Your Experience** – Being in your 50s gives you a wealth of work and life experience that can help you drive this new stage in your life. Use this experience

to decide what type of business you want to venture into, such as sole proprietorship, partnership or franchise.

- **Where's the Money** – The primary source of capital for most new businesses comes from personal savings. Using all of your savings may be risky when it comes to financing your own business. Discuss your financial options with your investment advisor.



- **Get Advice and Support** – The process may seem overwhelming but there are several organizations and resources that can offer you information, advice, and in some cases grants to help finance your business. For example, a great resource to use is the Government of Canada's Online Small Business Workshop (OSBW).

Starting your business can be challenging, but it's also very rewarding too. Your Investment Advisor can help you uncover the many resources available to help fulfill your dreams of becoming your own boss.

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