

Life Letter *mature*

More income and less tax? It can be done

Dennis and Anna have a \$250,000 non-registered GIC maturing soon from which they have been receiving interest income monthly. Interest rates have dropped since their original deposit and they are concerned about a decrease in their income. They would also like to lower their income tax bill. Here's what Dennis and Anna can do:

With a renewal interest rate of 4.50%, the GIC will generate \$11,250 of fully taxable interest income annually. If this income is taxed at 35%, they are left with \$7,312.50 after-tax annual income, or \$609.38 per month. Dennis and Anna want more after tax income monthly, but they also want to preserve the capital for their heirs.

If they use about \$100,000 to purchase a 10-year term certain prescribed annuity, they will enjoy a monthly income of \$1,000. By choosing a prescribed annuity, Dennis and Anna will have a level taxable amount that does not change year to year. They will have to pay taxes on about \$2,000 per year of income for the entire ten year period. At the same 35% tax rate, their tax bill on this income will only be \$700 annually. Dennis and Anna will receive about \$941.67 per month after taxes - an increase of almost 55% over the GIC interest only income.

They would then take the remaining \$150,000 and deposit it in a well balanced investment fund account. Assuming an after-tax average annual compound return of 5.50%, the funds would grow back to about \$256,222 after ten years. Dennis and Anna could do the same thing again at that time,

depending on their income needs then.

Let's compare the results:

	GIC	Annuity and Investment Fund
Annual Income	\$11,250	\$12,000
Income Taxes	\$3,937.50	\$ 700
After-tax Income	\$7,312.50	\$11,300
10-year Balance	\$250,000	\$256,222

Dennis and Anna realize that this plan will leave a two part estate value for their children - the continuing annuity income and the growing investment funds. In the mean time, they have \$332.29 more net monthly income.

Annuity and GIC rates can change daily. The above calculations are for illustration purposes only. See your financial advisor for up to date calculations for your situation.

For information purposes only and not intended to provide specific tax advice. Tax rates vary by province. See your tax advisor for rates that apply to your situation.

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