Tax Time Planner, Investment Guide

Special Pull-Out of the

WINCHESTER PRESS

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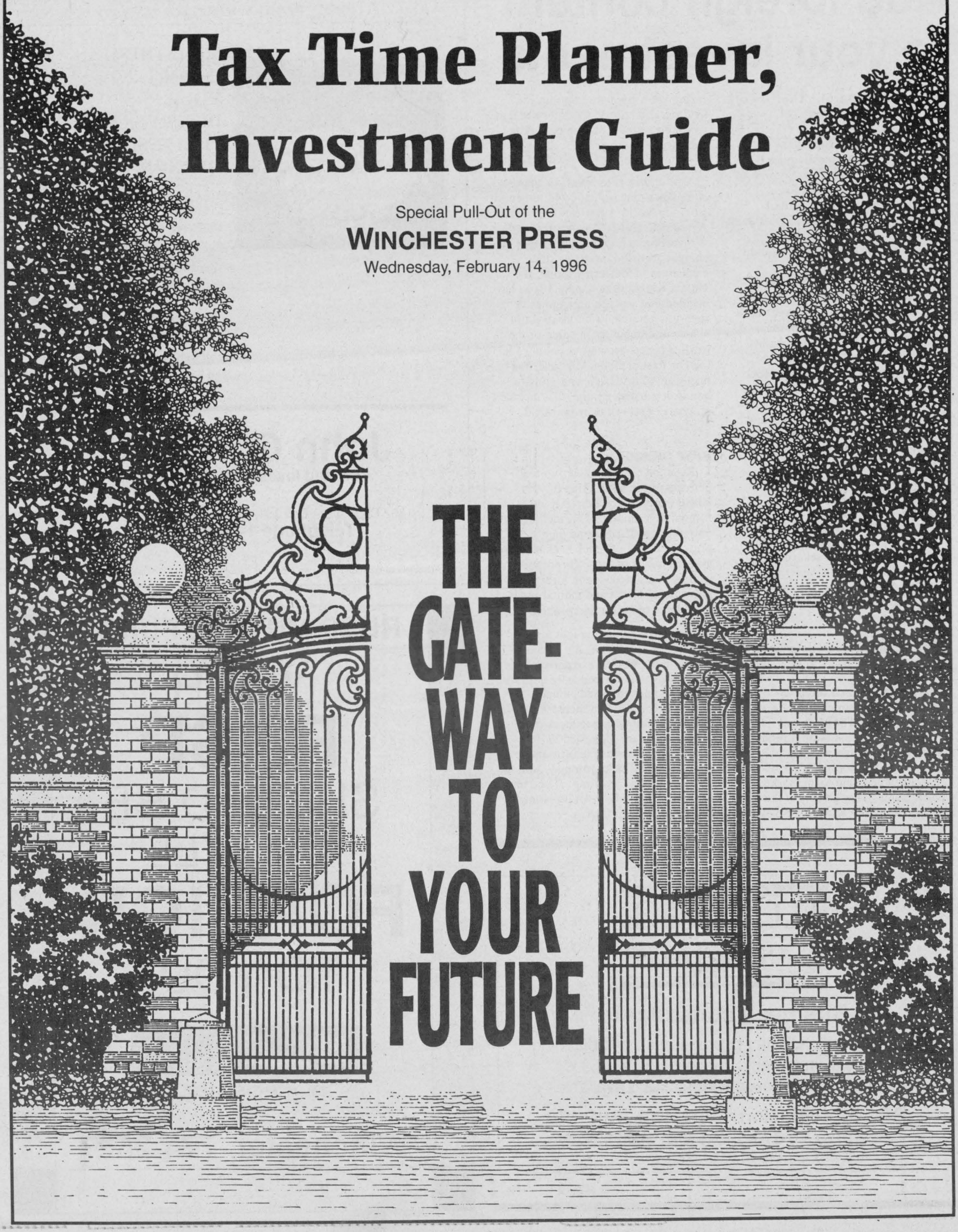

Add foreign content to your investments

submitted by Martine Thurler-Guy, Bank of Montreal

WINCHESTER — It seems that a growing number of Canadians are heeding their investment counsellor's advice and adding an international component to their portfolios, probably because 97 per cent of investment opportunities are outside of Canada.

Following is some advice offered by investment counsellors.

Experts say that over the next few years many of the world's developed and emerging nations will experience much higher rates of growth than Canada. If your currency drops in value against other currencies, the long term purchasing power of your assets may decline. They tell us that by diversifying outside of the country we can take advantage of new growth opportunities, potentially increase our overall rate of return and reduce the risk of loss in purchasing power.

GLOBAL INVESTING

There are a number of ways to obtain international exposure in your investment portfolio. You may choose to purchase individual securities traded on foreign exchanges, or purchase American Depository Receipts that trade on the American stock exchanges. Experts tell us that the most popular choice for Canadians adding the international component to their portfolios appears to be mutual funds.

Purchasing mutual funds for international investment is convenient, cost effective, and you achieve diversification. Most mutual funds that invest in foreign markets use international advisors who are knowledgeable about local market environments. This gives you the best expertise available around the world — easing your mind when going into unfamiliar territory. Chances are that you'll do better with a mutual fund than if you invested in the same type of securities directly.

One choice is to invest in shares of companies that are expected to benefit from the North American Free Trade Agreement (NAFTA). Another option is investing in high quality shares of companies listed on major stock exchanges in Western Europe, the United Kingdom or Japan. If you have decided that you are an aggressive investor, you may want to invest in shares of companies in some of the world's fastest growing economies in the Far East or Latin America. You may want to diversify with global bonds or a balanced fund that includes all types of securities from world markets.

RRSP OR RRIF

Revenue Canada allows up to 20 per cent of the book value of your RRSP to be invested directly in foreign investments. This includes not only foreign shares listed on a prescribed foreign stock exchange, but also the bonds of those corporations as well as investment-grade foreign government bonds and mutual funds considered to be foreign property.

You may be thinking that higher investment returns usually means greater risk. Well, the experts tell us that this does not necessarily hold true when it comes to international investing because you increase diversification which reduces risk.

So, if you are interested in increased investment returns and potentially less risk, you may want to consider global investing. If you have any questions, talk to an investment advisor at your branch.

ARE YOU CONCERNED ABOUT YOUR RETIREMENT?



SOMETHING AS IMPORTANT AS YOUR RRSP DESERVES A PROFESSIONAL OPINION.

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How compounding works

Submitted by
Redsell Seguin Financial Services

It's been called the eighth wonder of the world. The amazing effect of "compounding", one of the strongest secrets to successful investing is pursued by investors both large and small as an effective means of enhancing long-term total return.

By definition "compounding" means that the gains earned on an investment are added to the original amount, therefore increasing the total base upon which future gains are added. In simple terms, gains paid on gains or interest paid on interest.

One of the easiest ways for a small investor to get into the compound game is through a process known as dollar cost averaging. This is the technique of buying a fixed dollar amount of a particular investment, mutual funds are the most common example, at fixed intervals such monthly or quarterly.

To illustrate the effects of both compounding and dollar cost averaging, *Money Magazine*, Managing Editor Frank Lalli recently wrote: "Let's imagine that you are the world's most unlucky investor. You put $5,000 into the market at the 1987 peak right before the crash and then added equal sums the very day the market hit its high every year since then.

Where would you stand? Your $35,000 investment would now be worth $49,486, including dividends, for a healthy 10.5 percent annual return." Dollar cost averaging takes the emotional warfare out of investing. You're spared the struggle of trying to time the market. A program of dollar cost averaging eliminates the stomach-churning decisions to invest in declining markets or in ones that appear overvalued. You have only one decision to make as long as it's adhered to.

For novice investors, dollar cost averaging simplifies the process of investing and makes it highly accessible. Manageable amounts in denominations as small as $50 maybe invested monthly in mutual funds.

By determining whatever amount you can afford and arranging for automatic withdrawals to be made on pre-determined date, you'll be surprised at how quickly your savings add up.

Said one client, "After just five months of dollar cost averaging, I was shocked to learn how much I had managed to save. I hadn't given much thought to the monthly contributions I'd been making... they were so automatic... but those, coupled with the gains my mutual funds had made, put me in a rather nice position. And it was so painless, that's what I couldn't get over. It felt like someone else's money."

The process of dollar cost averaging allows you to buy more units when the price is down, and reap the benefit of increased value when the price goes up.

Dollar cost averaging is simple to arrange. Once you've determined the amount you wish to invest and the intervals at which you wish to purchase, you and your financial advisor can select the vehicle that's right for you.

Information for Residents of Ontario

1995
General Income Tax Guide and Return

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Revenue Canada publications are now on-line. Their addresses are: gopher://gopher.revcan.ca, ftp://ftp.revcan.ca, or http://www.revcan.ca.

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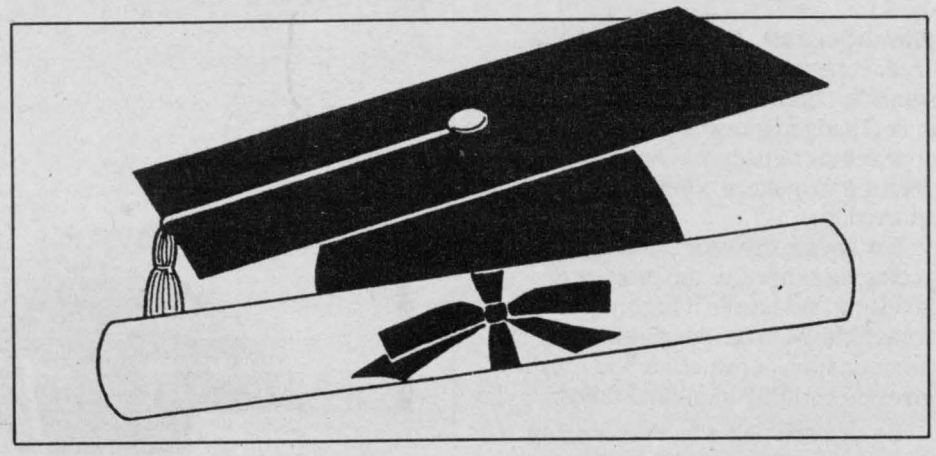
RESP common saving method for education

by Don Scott, CA

A common method of saving for a child's post-secondary education is through the use of a Registered Education Savings Plan (RESP). A RESP is a trust arrangement that earns tax free income that is used to fund the cost of a child's post-secondary education. Contributions to a RESP are not deductible for tax purposes, however, withdrawals of capital are not taxed. The beneficiary (e.g., a child) is taxed on the income when withdrawn from the RESP for the purpose of funding the child's university education. As a result, the income is usually taxed at low rates, if at all, since the child often has relatively low sources of other income while in school.



The RESP legislation caps the annual contribution at $1,500 per beneficiary with maximum total contributions of $31,500. Due to this annual limit, it is important for parents to consider starting a RESP when the child is young so as to maximize the benefits that may be achieved. Different RESPs have different terms as to qualifying beneficiaries, investment of the funds, and eventual pay out of the capital and accumulated income. Advice should be sought prior to starting a RESP to ensure that the terms of the plan meet the parent's intentions and requirements.

Another method to provide savings for a child's education is through the use of a family trust. Contributions to the trust may be invested in equity growth investments (any dividends or interest earned will be taxable to the person who contributes the capital) and any resulting capital gains will be included in the child's income — presumably at low tax rates. Use of the family trust is sometimes preferable to a RESP as there are no contribution limits and fewer restrictions as to the eventual use of the funds.

Ethanol shares

CORNWALL — Under the terms of an offering statement dated Jan. 22, the Seaway Valley Farmers Energy Co-operative Inc. have made available $7 million worth of shares in the Cornwall ethanol plant.

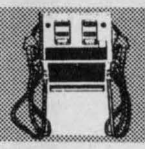
Seaway's sales team aims to sell these shares by March 31, beating its 1995 record of raising $5 million in less than three months. They have a $3 million incentive in the form of a grant from the Ontario Ministry of Agriculture, Food and Rural Affairs. The provincial funding, announced in Dec. 1995, carries the condition that the $16 million required for development and start-up of the ethanol plant be in place by the government's fiscal year end of March 31.

The Seaway sales force hopes farmers will take advantage of the economic opportunity created by this year's record-breaking corn prices to increase their support for the ethanol project. "We're giving shareholders an opportunity to expand their holdings in the project," says Seaway President Bud Atkins. The new offering statement has been mailed to the current 1,800 shareholders, made up largely of farm families.

"In the light of continuous government cutbacks, farmers have to look after themselves," adds Atkins. "The ethanol plant will create a steady annual market for 132,000 tonnes of Eastern Ontario corn — roughly one-third of the region's 1995 crop."

The sales team also sees vast potential in new corners. Members of the business community have begun lining up to support the ethanol project. On Jan. 3, Co-operators Insurance bought $25,000 in shares. Recently J.R. Brisson Equipment Ltd. announced the purchase of shares worth $30,000.

The Seaway Valley Farmers Energy Co-operative was formed in 1992 for the specific purpose of developing a long-term value-added market for Eastern Ontario corn. Construction of the plant is expected to begin this spring.



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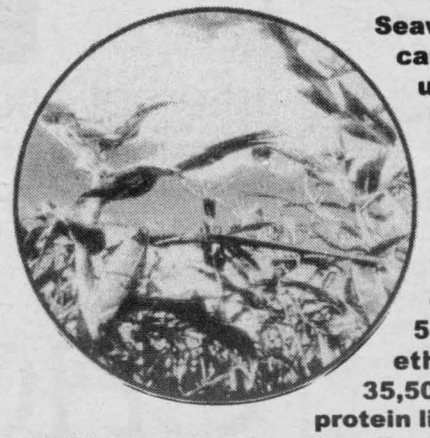

Seaway Valley is about community. Together we can provide new markets for our farmers, clean up the air and improve the local economy. We want to build an ethanol plant, owned and operated, by and for, eastern Ontario.

Seaway Valley is building for the future with sustainable development. The $48 million ethanol project is expected to produce 55-million litres of ethanol per year, 35,500 tonnes of high protein livestock feed and 34,500 tonnes of carbon dioxide.



The Seaway project will produce ethanol, an environmentally beneficial, renewable fuel which reduces carbon monoxide emissions by up to 30%, carbon dioxide by up to 10% and the potential for ground-level ozone (smog) formation.

JOIN THE GRASSROOTS MOVEMENT TODAY!

Seaway Valley needs your help to build eastern Ontario's future. Acquire Preferred 'A' and 'B' shares through your self-directed RRSPs or by participating directly. Time is running out. The deadline for RRSPs for the 1995 tax year is February 29, 1996. Let's keep our hard earned dollars working for us.

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FARMERS ENERGY CO-OPERATIVE INC.

The offering of securities by the Co-operative is being carried out persuant to an offering statement dated January 22, 1996. A copy of the Offering Statement of the Co-operative may be obtained from Seaway Valley Farmers Energy Co-operative, 2855 Marleau Avenue, Cornwall, Ontario. K6H 7B6 or by calling the telephone number listed below. Investors should read the Offering Statement prior to purchasing securities of the Co-operative.

To purchase shares in Seaway Valley Farmers Energy Co-operative Inc., or for more information please contact the following:

Dean Williams	613 989 3221	John Van Turnhout	613 984 2689
Jim Wallbridge	613 774 2923	Don McIntosh	613 448 1489
Cliff Metcalfe	613 989 1295		

or the Seaway office in Cornwall at: 1 800-776 1603

Changes to tax laws

Dianne Fetterly
Agricultural editor

KEMPTVILLE — Changes made to the tax law for 1995 could change the way some farmers do business.

Under existing law, individuals and businesses could report business income using any fiscal year-end. But all that's changed Eric McAuley of BDO Dunwoody Ward Mallette told a group attending Farmers' Week activities last Monday in Kemptville.

According to McAuley, Revenue Canada made the changes to the tax law to eliminate timing differences in reporting business and employment income, to create tax revenue, reduce abuse of current rules, and be consistent with other countries like the United States.

Basically all businesses, no matter how small, will be affected by the changes, says McAuley — individuals (i.e. proprietorships); partnerships where at least one partner is an individual, another affected partnership or a professional corporation; and professional corporations which are members of a partnership.

Under the new rules, which are applicable to fiscal periods after 1994, many taxpayers would be forced to report more than 12 months of income, says McAuley.

However a special mechanism will help to ease the transition to the new system by allowing taxpayers to stretch out their reserve.

To be eligible for the reserve option, taxpayers must have carried on the business at the end of 1994 or must carry on the same or a similar business in the year.

HOW IT WORKS

To calculate the maximum reserve for any year: take *Specified Percentage* multiply by (Dec. 31, 1995 income and subtract other 1995 deductions). Specified percentages are as follows: 1995 - 95 per cent; 1996 - 85 per cent; .... 2003 - 15 per cent; 2004 - 0 per cent.

As well you can claim less than the maximum reserve to take advantage of low marginal tax rates in low income year or to increase RRSP earned income. However, reserve claim cannot be increased in a subsequent year, says McAuley.

Reserve can't be claimed if you're tax exempt (end of year or following year); a non-resident of Canada; the corporation dissolves; there is death or bankruptcy in the year; or does not carry on business at beginning of year.

ALTERNATIVE METHOD

A second option for taxpayers is the alternative fiscal-period method, says McAuly.

There isn't a lot of difference between the reserve and alternative methods, says McAuley, However, under the alternative system, released Dec. 12, 1995, eligible taxpayers can keep their regular fiscal year-end, he says.

With the alternative fiscal-period method reserve is always based on *deemed* Dec. 31, 1995 income. As well taxpayers must elect to use the method where election is done at partnership level and binds all partnerships.

Those eligible for the alternative method are: sole proprietors and partnerships where all the partners are individuals and are not members of other partnerships. Partnerships who have corporate partners or tiered partnerships are not eligible.

The calendar year-end proposal will also affect the GST, says McAuley.

Taxpayers must use the calendar year-end for GST unless the alternative method is used. As well annual filers must file annual returns by June 15 — net GST is due on April 30.

Alternative fiscal-period Method - 1995 example

1995 Tax Return	
January 31/95 income	$35,000
Add: additional income $35,000 x 11/12	32,083
subtotal	$67,083
Deduct: reserve for 1995 $32,083 x 95%	(30,478)
Business income for 1995	$32,520

BDO OH 17

Alternative fiscal-period Method - 1996 example

1996 Tax Return	
January 31/96 income	$30,000
Add: additional income $30,000 x 11/12	27,500
Deduct: 1995 additional income	(32,083)
subtotal	$25,417
Add: reserve for 1995	30,478
Deduct: reserve for 1996 $27,500 x 85%	(23,375)
Business income for 1996	$32,520

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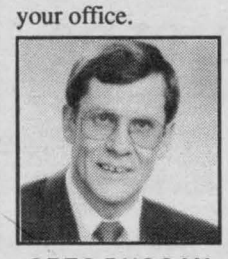

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John Hague of Ontario Corporate Funding Inc. is a investment manager for Trillium Growth Capital Inc., a labor-sponsored investment fund. He believes that small companies are the engine of the economy and will be the core of economic growth during the next decade. He offers these reasons to invest in a labor-sponsored investment fund.

The unique opportunity to help fuel the economy and create jobs.

Labor-sponsored investment funds offer Canadians a unique opportunity to participate in the economic development of their province and the creation of jobs. Individual investor dollars are pooled into a fund then professional investment managers invest it in promising small and medium-sized businesses.

From 1989-1993 companies receiving "venture capital" funding created thousands of new jobs, took in $4 billion in export sales, and generated $300 million in tax revenue. Labor-sponsored investment funds are a dynamic way to put investment money to work for both the investor and the economy.

RRSP Eligibility

As with all RRSP eligible investments, a labor- sponsored investment fund allows you to receive 27 per cent to 53 per cent tax back on amounts that are within your allowable RRSP contribution limit and invested by Feb. 29. This can mean a $1,350 to $2,650 savings on a $5,000 investment.

40 per cent tax credit worth up to $2,000

In order to encourage investment in emerging industry sectors, the government offers generous tax advantages to investors in funds which are sponsored by eligible labor and employee groups and follow specific guidelines. The tax advantages help to cushion investors from the risks that go along with direct investing in smaller companies.

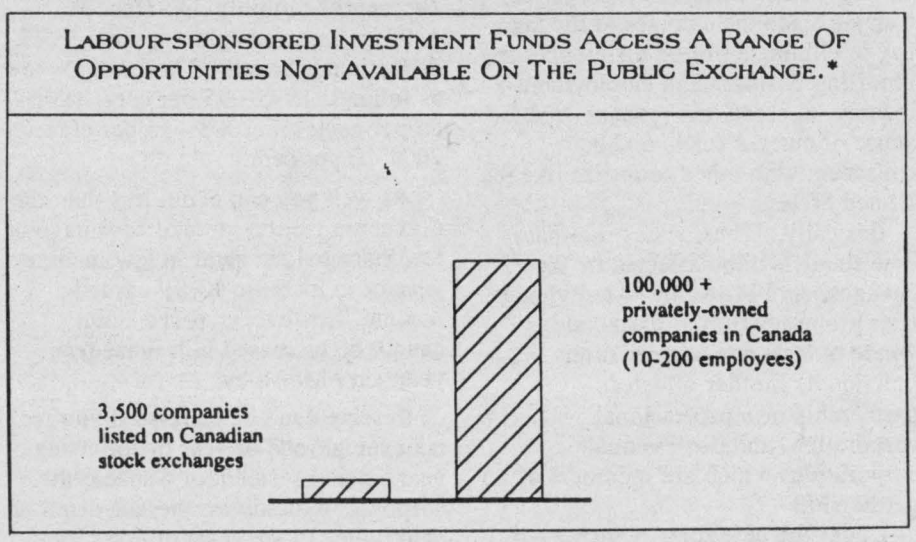
Gain access to unique investments for greater diversification

While Canadian equity mutual funds invest primarily in the 3,500 companies traded on Canada's stock exchanges, labor-sponsored investment funds have access to the thousands of Canadian companies that are privately-owned. The ideal scenario is to invest in these private companies and grow them to a size where they can be "taken public" providing a good return to the original investor.

Private companies offer a unique set of opportunities with a different risk/return scenario, providing more diversification in your portfolio.. Furthermore, some labor-sponsored investment funds invest across industry sectors at different stages of development.

High potential returns - today's small companies can become tomorrow's large companies

With labor-sponsored investment funds you can get in on the ground floor of tomorrow's success stories. There are many Canadian companies that have the potential to succeed but lack the necessary capital to expand production, launch new products, enter new markets, and so on. Fund investment managers use their expertise and research to identify companies they feel are appropriate investments to the fund —those with a workable plan to achieve profits through aggressive growth in a four to seven year time frame.



Source: Dun & Bradstreet and stock exchanges in Toronto, Montreal, Alberta and Vancouver

** Labour-sponsored investment funds can only invest in those companies meeting the eligibility criteria as defined in their prospectuses.*

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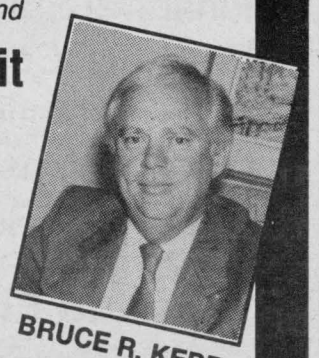
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Getting the most for your RRSP dollar

submitted by Brian Mann, BDO Dunwoody, Winchester

RRSPs are an important component of an overall financial plan for most Canadians. As we struggle with higher personal taxes and a fear that our government will not be able to provide adequate pensions for us in retirement, RRSPs offer a great opportunity to save taxes currently and provide for our retirement needs.

RRSPs provide three main benefits in helping save for retirement:

You get a tax deduction for the amounts contributed (up to certain limits). Therefore, you can effectively set aside a part of your income each year to save for retirement on a pre-tax basis;

Earnings on the assets in your RRSP accumulate tax-free. This helps the size of your RRSP grow faster, savings compound much more quickly if the return is not subject to tax;

RRSP funds are only taxed when withdrawn. This can mean real savings if you withdraw the funds in years when your income (and marginal tax rate) is lower, such as when your retire.

There are many different RRSP investment alternatives available to you. Through banks, trust companies, credit unions and other financial institutions, you can put your money in interest- bearing investments such as guaranteed investment certificates (GICs) and daily interest savings accounts. As well, you can invest in mutual funds through most banks, trust companies and mutual fund companies. If you want to hold a wider variety of investments in one plan, you can use a self-directed RRSP.

If you are investing in assets which are insured by the Canada Deposit Insurance Corporation (CDIC), it may make sense to have more than one RRSP with different RRSP issuers. The CDIC only issues up to a specified limit of assets with each member financial institution. Therefore by having RRSPs with more than one institution, you can increase the amount of your investments that are covered by the CDIC. Assets covered by the CDIC usually include bank or trust company deposits and GICs but not mutual funds.

CONTRIBUTION LIMITS

The amount which is tax-deductible for any year is referred to as your RRSP contribution room for that year. The RRSP contribution room that Revenue Canada shows on your Notice of Assessment includes all your unused room that carries forward from prior years.

The limit for a year is: 18 per cent of your previous year's earned income up to a maximum amount for the current year, less the previous year's pension adjustment (PA).

Specifically, earned income includes: salaries and wages, research grants, royalties (on patents), net income from self employment, net rental income from real property, alimony and maintenance received, and supplementary unemployment benefit plan payments.

Earned income is reduced by: rental losses from real property, losses from self employment, and alimony or maintenance payments made.

RRSP contributions do not have to be deducted in the year in which they are made. The contributions can be deducted in that year or any future year. You should consider deferring the deduction of your contribution if you don't have much taxable income in the current year. By deferring the deduction to a year when your marginal tax rate is higher, you will save more in taxes. Remember, however, that delaying the deduction has a cost in prepaid tax as you will not be getting the benefit of the deduction until the future. Therefore, you also have to consider the time value of money when making the decision to defer the deduction of your RRSP contributions.

Interest on money borrowed to make your RRSP contribution is not deductible for tax purposes. Therefore, whenever possible, your should use cash to make your RRSP contribution and borrow to make other investments.

In some cases, however, it can make sense to borrow to contribute to your RRSP. Remember that the income earned on an RRSP investment accumulates on a tax deferred basis. If you can pay off your loan quickly, particularly if you are getting a tax refund, the non-deductible interest expense can be minimized.

SPOUSAL RRSPs

If you have available RRSP contribution room, you can make a contribution to your RRSP or to an RRSP for your spouse (referred to as a spousal RRSP). A contribution in a spousal RRSP will qualify as a tax deduction for you as long as your total contributions to your plan and a spousal plan do not exceed your contribution limit for the year.

The main benefit of a spousal RRSP is that it will allow income splitting in the future, at retirement, since withdrawals will usually be taxable in the hands of your spouse.

If you have made a contribution to your spouse's plan in the current year or in either of the two preceding years, a withdrawal by your spouse from a RRSP is taxable to you to the extent of the contributions made during the three-year period.

Should you contribute more than your contribution limit, you will be subject to a one per cent penalty tax per month to the extent that the overcontribution amount exceeds $2,000 ($8,000 for overcontributions made before Feb. 27, 1995). This penalty tax is expensive and ensures that it is not worthwhile to make overcontributions above the limit.

ALLOWANCES

Pension income that you receive cannot generally be transferred to an RRSP. Prior to 1995, it was possible to transfer up to $6,000 of pension income annually to your spouse's RRSP but this transfer is no longer available.

A retiring allowance, which is an amount received by you on retirement or as compensation for the loss of employment, can be transferred to an RRSP. The eligible amount that can be put into your RRSP is equal to $2,000 for each year of employment before 1996 (due to changes announced in the 1995 budget, no amounts can be transferred for years of service after 1995). An additional $1,500 can be transferred for each year before 1989 where your employer's contribution to an RPP or DPSP had not vested at the time of you retirement or termination.

This transfer can be made directly by your employer to your RRSP, eliminating the need for tax withheld at source. You can also transfer amounts you actually received during the year. Any eligible amount must be contributed to your RRSP in the year or within 60 days of the end of the year.

RRSPs are an important and effective way to save for retirement.

You should take full advantage of this planning opportunity to ensure that you have sufficient retirement income in the future.

Glenn Cowan
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Venture - capital funds... investment or tax credit

by Tony Maneely, CIM

Do not buy them for the $2,000 tax break, but for their investment worth.

While I believe that everyone paying over $3,000 in taxes should consider these funds, I also believe that *nobody* should buy without consulting an expert. What good is a $2,000 credit if your investment keeps you awake at night. You must understand before you buy.

A $5,000 investment provides you with a $2,000 tax credit. Ask yourself, "is $5,000 in this fund worth $3,000?" In some cases it is a gift in others a gamble. In most cases the selection depends on your comfort level and how it fits with your other investments.

Keep in mind that you must hold these investments from two to five years depending on your age or employment situation.

The markets are flooded with these funds. I am one of Canada's top supporters of venture-capital funds. I may also be high on the list of critics. Some funds are ideal as investments, others I will not even consider. Like all investments, some are reasonable, some are exceptional and others are "Don't call me, I'll call you" situations.

Many funds have unproved management or are so specialized that they suit only a small portion of investors.

Now a good venture capital manager can earn in excess of 20 per cent per year, plus this diversification will reduce the risk on a growth portfolio. My investigation of funds to date leads me to believe that investments should be restricted to the following:

Canadian Medical Discoveries. Very specified, but with experienced managers. Medical products and research is one of the strongest growing areas of our economy. RRSP with Talvest.

C.I. Covington. I'm very impressed with manager Grant Brown and his policy, Could be a strong performer. Can be used in C.I. RRSP at no annual fee.

Vengrowth Investment. Very impressive management record. Could be exceptional long term hold. RRSP with BPI.

Triax. This new fund could have the best growth potential. Managed by a top small cap stock specialist, it should have access to listed companies requiring new capital.

Working Ventures. Highly conservative large fund. Ideal for the first-time investor concerned about volatility. $30 annual RRSP fee if directly with fund.

Diversification is the best policy. Own more than one venture capital fund. The government puts the odds on your side, by taking the first 40 per cent of any risk. If your fund goes neither up nor down during your minimum holding period, your after-tax return is between 10.8 per cent and 25.6 per cent. Make sure you understand completely before you invest.

Save taxes for 1995

by Don Scott, CA

Any easy way to reduce your tax bill for the year is by contributing to a RRSP. The 1995 RRSP contribution is limited to 18 per cent of 1994 earned income to a maximum of $14,500.

This may be further reduced based upon participation in a company pension plan or DPSP in 1994. If the maximum contribution is not made in 1995, the excess may be used as additional contributions in future years. Your 1994 Notice of Assessment from Revenue Canada should have provided information as to the maximum amount that may be contributed this year. The 1995 federal budget reduced the maximum RRSP contribution back to $13,500 for 1996 and 1997.

Tax savings can also be achieved by making use of contributions to a spousal RRSP. In this case, the contributor receives the current deduction from income while the spouse pays tax on the income when withdrawn. Where the spouse is in a lower tax bracket, a tax saving is achieved. If you contribute to a spousal plan in the two years prior to a withdrawal, a portion of the withdrawn amount may be included in your income.

A contribution in excess of the regular annual limits may be made to your RRSP without penalty unless the total over-contribution for all years exceeds a maximum amount. The 1995 federal budget reduced the maximum over-contribution amount from $8,000 to $2,000 as of Feb. 26, 1995. Any over-contribution in excess of $2,000 made after that date will be subject to a 1 per cent per month penalty beginning in January 1996. Advice should be sought prior to making an intentional RRSP over-contribution.

If you own investments both within and outside a RRSP, it is generally more tax efficient to hold interest earning investments within the plan and dividend earning and/or capital appreciation type assets outside the RRSP. This is due to the fact that all withdrawals from a RRSP are included in income in full when received. As such, the benefits arising from the lower marginal tax on dividend income, the tax-free portion of capital gains, or use of the capital gain exemption are lost if such sources of income are earned within the RRSP.

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