



Since 1972

# MSC WEALTH MONITOR

Summer 2010

## Celebrating 38 Years!

May 2010 marks our 38<sup>th</sup> year of providing comprehensive fee only financial advice. We are proud of this achievement, and wish to express our sincere thanks for your ongoing loyalty and trust.

The past months have seen a number of changes at MSC:

- We said goodbye to a couple of long-term staff. Our receptionist of four years, Tracy Kelly, remains a full-time mom following her maternity leave, and after 10 years with MSC, professional assistant Shannon Cairns is pursuing new challenges and personal interests.
- Teresa Stolarskyj has moved from receptionist to professional assistant, where she provides administration of the Strategic Asset Monitoring program. Teresa has completed the Canadian Securities Course and is pursuing her Certified Financial Planner designation.
- Finally, we are happy to welcome Vincy Cheung as our receptionist. Vincy recently returned to her Vancouver home after three years teaching English in Tokyo, Japan. Feel free to introduce yourself next time you call.

## Proposed changes to Employee Stock Options Benefits

The 2010 Federal Budget proposes a number of changes to the taxation of Employee Stock Option Benefits in order to both simplify the tax obligations of employer and employee and to extend prospective tax relief where the tax burden of one's shares outweighs their real value.

These measures would generally eliminate the availability of a simultaneous tax deduction to employer and employee for cashed-out options, amend withholding tax requirements to increase the amount due by an employer at the time of share issue and eliminate the employee's ability to defer taxation on stock options to the time of their disposition.

Budget 2010 also proposes to assist those who elected to defer their stock option benefits, but where the value of whose shares have fallen below the deferred taxable employee benefit amount. A special elective tax treatment is proposed such that the tax liability on the deferred option benefit does not exceed the proceeds of disposition on the optioned shares.

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## Retirement planning and the changing Canada Pension Plan

How certain is your retirement strategy? Pending changes to the Canada Pension Plan (CPP) may impact your planning.

In 2011, the late pension start increase will be raised to 0.7% per month from the current 0.5% after age 65. A concurrent adjustment to early pension start reduction takes effect in 2012, when the current 0.5% per month between the ages of 60 - 65 will be gradually increased to 0.6%. While this adjustment may appear small, it can impact significantly over time. Currently, an applicant at age 60 is eligible to receive 70% of his or her expected age 65 benefit; however, once the rate adjustments take effect, this amount will be reduced to 64%. In dollar terms at current CPP rates, this amounts to nearly \$700 per year.

Current CPP applicants under the age of 65 must demonstrate a substantial cessation in work by way of a two-month period where earned income from (self-) employment is less than the current maximum retirement benefit at age 65, or \$934.19 per month at today's CPP rates. An individual may increase earnings following this period, without resuming CPP contributions once benefits are being drawn. Beginning in 2012, applicants for early pension will be able to draw retirement benefits without demonstrating a reduction in income. However, ongoing CPP contributions will be mandatory to age 65 for those who continue to work, and will be optional thereafter. Continued contributions may increase pension benefits for the self-employed, even where they are already eligible for the maximum age 65 amount.

In some cases, taking advantage of the current regulations may be advantageous. Talk to your MSC advisor to determine what CPP strategy is most appropriate for you.

### Ongoing Professional Development at MSC

- Peter Edge passed the Certified Financial Planning exam, obtained his Diploma in Accounting from the University of British Columbia and has registered with the B.C. Securities Commission under Advisory Supervision.
- Ngoc Day passed the Certified Financial Analyst Level I exam.
- David Shymko attended the 12<sup>th</sup> annual Society of Trust and Estate Practitioners Conference in Toronto and returned with leading information on estate, citizenship and tax considerations.

## Proposed Changes

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The election must be filed before the filing due date for the 2010 tax year (April 30, 2011) if optioned stocks were disposed of before 2010. If they have not been disposed of, they must be disposed of before the end of 2015 and the election filed by the due date for the corresponding taxation year. In filing for this election, the following tax treatment is proposed:

- That the amount of the stock option deduction be equal to the stock option benefit, thus eliminating the stock option benefit;
- That the employee be required to include in his or her income a taxable capital gain equal to 50% of the lesser of the stock option benefit or the capital loss realized on the disposition of the optioned shares;
- That the employee be required to pay a special tax equal to the proceeds of disposition.

The decision to elect this special tax treatment or not depends on whether the individual can utilize the allowable capital arising from the disposition of the optioned shares against taxable capital gains from other securities. Your MSC advisor can help you to determine the most beneficial approach.

## Taxation, disclosure and the implications of “accidental” American citizenship

Recent changes in U.S. taxation regulations impact upon both non-resident U.S. citizens and non-U.S. persons investing in the United States.

It's known that non-resident U.S. persons are obligated to file a U.S. income tax return annually, but did you know that you might be an American citizen and not realize it?

Citizens are typically those who were born in the U.S. or became naturalized, and, depending on the law in effect at the time, children born to U.S. citizen parent(s). However, many individuals who do not meet these tests and who have never actively pursued U.S. citizenship, or who believe they lost their citizenship upon emigration, may still be qualify as U.S. citizens.

Questions to consider when determining whether you may be a U.S. citizen include:

- Where were you born?
- Where were your parents born?
- Do you hold a Green Card?
- Is your spouse or child a deemed resident in the U.S. for tax purposes?

For instance, a grandfather was born in the U.S. in the 1930s, but moved to Canada and was naturalized in his late 20s. Regardless, he retains his U.S. citizenship. His son, born in Canada in the 1960s, has been an American citizen since birth due to the duration of the grandfather's time in the U.S. This father's son, born in Canada in the 1990s, has also been

an American citizen since birth, since his father was older than the government-designated age (which has varied over time) when he lived in the U.S. for five years of work or school.

If you think you may be considered a U.S. citizen, it's important to let your financial advisor know. Indeed, your advisor will likely raise such questions under the B.C. Securities Commission's *Know Your Client* requirements in an effort to determine whether a possible connection exists.

In addition to the changes in individual reporting requirements, Canadian financial institutions, including banks and investment firms, will be required to report the personal information and account balances of U.S. persons whose accounts they hold beginning in 2013. Non-compliance will result in an automatic 30% withholding tax on investment income derived from those accounts.

Additionally, with the IRS and Homeland Security now sharing information, individuals have in some cases been denied entry into the U.S., and forced to immediately update tax filing. Even if you never travel to the U.S, acquiring or selling U.S. property or investments, or becoming the beneficiary of a U.S. estate or trust could have serious ramifications.

To remain compliant, non-resident U.S. persons must generally file the following two items alongside their annual U.S. Income Tax Return beginning in 2011:

1. *Foreign Bank & Financial Accounts (FBAR)* report to the Treasury Department:

- Identifies financial interest or signing authority over aggregate amounts in excess of \$10,000 in a foreign (non-U.S.) country.

2. *Hiring Incentives to Restore Employment (HIRE)* report to the IRS:

- Discloses aggregate foreign financial assets in excess of \$50,000 at any time during the calendar year.
- Statute of limitations is extended to six years if an amount in excess of \$5,000 attributable to a foreign asset is omitted, and is ongoing if a required return is never filed.

If you think that “accidental” U.S. citizenship may affect you, proper planning may help avoid unwanted legal and tax consequences triggered by many commonplace events. While reciprocal tax treaties absolve most of one's taxes due to the IRS, it's still critical to file an annual income tax return in a timely manner in order to avoid penalties.

*This comment is not intended to be definitive but merely to alert you to the changing attitudes by revenue agencies around the world. Due to our high inter-connectedness with the United States, we suggest you revisit this area with your advisor and/or immigration counsel.*

## News Briefs

- Changes in the regulations surrounding the Tax Free Savings Account (TFSA) will see taxation of income derived from deliberate over-contribution or prohibited investments, and disallow the creation of additional contribution space through swap transactions and transfers between the TFSA and other accounts.
- Despite a sluggish second quarter as the Canadian economy absorbed the winding down of stimulus measures and tax incentives, the GDP is up 3.3% year over year. Projections forecast strong economic growth and continued leadership by example as the global economic system seeks to recover from, and prevent repeating, its current fiscal turmoil.
- In its bid to establish a National Securities Regulator, the Canadian Government has released a proposed Canadian *Securities Act*, developed in voluntary consultation with the provinces and territories. In so doing, the Government hopes to strengthen the Canadian financial system and reduce bureaucratic costs.
- Regulations enhancing the protection of Private Pension Plan Members have been finalized. Measures aim to increase the latitude of funds' investment approach and reduce short-term market fluctuations while maintaining a greater cushion of assets. Further changes may be expected in the coming months.
- Financing government-backed insured mortgages has become more stringent as of April 19, 2010. Amongst the adjustments, all borrowers must meet the standards for a five-year fixed rate mortgage, irrespective of the rate and term they ultimately choose.

## MSC in the News

**Doug Macdonald** was recognized as “one of the most quotable R.F.P.s.” by the Institute of Advanced Financial Planners (IAFP). Doug was also featured in a June 9<sup>th</sup> Globe TV news interview.

**Gina Macdonald, Keith Copping** and **Ian Black** have each been featured as advisors in the *Globe and Mail's* “Financial Facelift.” column. Ian also participated in a real-time question-and-answer period with *Globe* readers. See the articles by searching for the advisor by name at [www.globeandmail.com](http://www.globeandmail.com)

**Brinsley Saleken** was the featured advisor in the *Globe and Mail's* online Portfolio Facelift at [www.globeinvestor.com](http://www.globeinvestor.com)

## What's ahead for MSC

- Our advisors will enhance their knowledge by attending the annual IAFP symposium in Banff, September 22-24. Our office will remain open during their absence.
- We hope you enjoy the new look and content of the newsletter. Expect to see ongoing changes as we strive to provide you with a timely, interesting and informative read. We welcome your comments!
- Your MSC advisor is happy to speak with you regarding the content in these pages, or any other financial planning concerns or questions you may have.

*The only question with wealth is, what do you do with it? ~ John D. Rockefeller*