Macdonald, Shymko & Company Ltd.

Fee Only Financial Advisors/Portfolio Manager

Wealth Monitor

Fall 2017

Controversial Private Corporation Tax Changes

On July 18, 2017, the Finance Minister, Bill Morneau, announced a proposal on tax changes that will affect private corporations, citing 'loopholes' that currently enable business owners to allegedly pay less than their "fair share" of tax. While the political message has been about making the rich pay their "fair share" of taxes, the proposed policies have the potential to impose significant taxes, administration, and complexity for many small businesses. There has been widespread criticism and resistance from many professional organizations across the country to the proposed changes. There have also been many articles highlighting the potential to harm the small business community, including the small-scale "middle-class" families that the government claims to protect. There is concern that the impact of many of the proposed policies have not been fully considered prior to release. As you know, at MSC we do not speculate; we are monitoring the developments closely and will be doing a deep-dive analysis once the 75-day consultation period is over and Ottawa releases exact details of what the changes look like. In the meantime, feel free to review our professional association's (IAFP - Institute of Advanced Financial Planners) response to Minister Morneau: https://www.iafp.ca/downloads/3/Tax_Planning_Response.pdf

B.C. Budget Update 2017

Proposed changes in the recent B.C. Budget Update (September 2017) include the following:

- A 2.1% increase to the B.C. personal tax rate in 2018 on taxable income over $150,000 (when combined with the highest Federal tax bracket, the top tax rate would be 49.8% for income over *approximately* $203,000).
- Reduce Medical Services Plan (MSP) premiums by 50%, effective January 1, 2018, with the intent to phase them out within four years. (Note: Provinces such as Ontario have already included the medical premiums in the personal tax system, so it is not really a cost savings, but a different method to collect the premiums.)
- Reduce the B.C. portion of the small business income tax rate from 2.5% to 2%, effective April 1, 2017.

Economists forecast not
because they know, but
because they are asked.
- J. K. Galbraith

Inside This Issue:

MSC IN THE PRESS

MSC Advisors were quoted in the following articles:

May 16, 2017 – *Advisor.ca:* "Protect Clients from Risky Syndicated Mortgages" (Larry Jacobson)

June 23, 2017 – *Globe & Mail* Financial Facelift: "Should Couple Focus on Paying off their Mortgage or Saving for Retirement?" (Brinsley Saleken)

August 14, 2017 – *Globe & Mail:* "What Do the Rich Worry About? Surprisingly, it's Money" (Ian Black)

September 1, 2017 – *Globe & Mail* Financial Facelift: "This Couple Face 'Significant Risks' if They Carry Debt into Retirement" (Ngoc Day)

September 6, 2017 – *Globe & Mail:* "What the Rich Can Teach Us in These Turbulent Times" (Ian Black)

September 8, 2017 – *Globe & Mail* Financial Facelift: "Is It Time For This 70-year-old to Sell Her Billboard Rental Business?" (Ian Black)

Please monitor our MSC website or Facebook site to read our latest articles.

www.macdonaldshymko.com

MSC NEWS

Welcome to New Staff Members

Welcome to our newest additions to the MSC team: **Aisling Foley** and **Jessica Taylor** in the Admin Team, and **Tim Stranks** (Financial Planning Assistant working primarily with Brinsley Saleken and Larry Jacobson).

Ongoing Professional Development

Upholding our firm's commitment to professional development, the MSC staff have all been busy attending numerous conferences and seminars, or developing professional designations. In particular, several of our Advisors attended the annual Society of Trust and Estate Practitioners (STEP) Conference held in Toronto in June, and all of our Financial Planning Assistants attended the DFA Foundations conference held in Vancouver in July.

IAFP Annual Symposium, Winnipeg

A number of MSC staff attended the Institute of Advanced Financial Planners (IAFP) Symposium in Winnipeg this September. The IAFP was celebrating the R.F.P.'s 30th anniversary and recognized the milestone with an array of awards for long-serving members. MSC's Doug Macdonald, David Shymko and Larry Jacobson were awarded 30-year membership trophies, as well as Gina Macdonald with 20 years of membership. Doug was also honoured by the IAFP as a 'Founder' and 'Guardian' of the R.F.P., and with the creation of the *Doug Macdonald Award*, which is to be presented to individuals in recognition of exceptional lifetime contributions to the profession of Financial planning, the R.F.P. and the IAFP.

The Symposium hosted a multitude of guest speakers from all over the country who presented their expert opinions on a variety of current financial planning issues. Presentations that garnered significant praise included: the potential complications arising from proposed US/Canadian tax and estate changes; the behavioral and psychological aspects of how we treat money within modern society; and the intricacies of family law when dealing with large, complex estates.

Principal Residence Reporting

Last year a number of changes were made to the reporting requirements when selling a property. Prior to 2016 tax year, a Canadian resident was not required to report the sale of a property if the property was the principal residence (PR) for every year it was owned: all of the capital gain was fully exempted from income taxes. Similarly, if the home changed into a rental or business property, or vice versa, the property was considered to be disposed of at Fair Market Value, but the deemed disposition was not required to be reported until it was *actually* sold.

Because there was no requirement to report a sale or deemed disposition of a PR, many Canadians did not keep good records of the purchase price, costs of capital improvements and Fair Market Value of the property when the change of use occurred.

The PR exemption becomes more complex when a taxpayer owns both a city home and a cottage. To minimize income tax, a taxpayer may claim PR on either property for some of the years of ownership, as long as there is only one PR claim for any given year after 1981 (prior to 1981, each spouse was allowed to claim PR on a separate property).

Let's look at an example of Mr. & Mrs. Smith who bought a Vancouver home in 1970 and a cottage in 1975 (both Joint), and converted the cottage to a rental operation in 2017. Under the new rules, they must report a deemed disposition of the cottage in the 2017 tax return; the difference between the Fair Market Value in 2017 and the cost (including any capital improvements) is the capital gain. It is possible for one spouse, say Mrs. Smith, to claim PR on the cottage from 1975 to 1981, to reduce the tax on capital gain. Mr. Smith can still claim PR on the Vancouver home from 1971 going forward until they sell it or change its use.

The new legislation expands the CRA's ability to assess taxpayers outside the normal assessment period (which for individuals and trusts is three years from the date of the Notice of Assessment), if the taxpayers fail to report the disposition or deemed disposition of real property in the year of disposition.

The changes also restrict the types of trusts which are able to claim the PR exemption for any year after 2016. Now, in order to claim PR exemption, the trust must be an alter ego trust, a spousal or common-law partner trust, a joint partner trust, a qualified disability trust or a trust settled by a deceased parent for a minor child. Depending on circumstances, an inter-vivo family trust established to hold residential properties may not be able to claim PR exemption for the years after 2016.

Additionally, the legislation eliminates the *plus one* in the formula for PR claim for a non-resident. The *plus one* factor was intended to accommodate the year where a Canadian-resident taxpayer disposes a former property and buys a new property in the same year, so that both properties would benefit from the full PR exemption. Under the amendments, the *plus one* factor will only apply when the taxpayer was resident in Canada during the year that the property was purchased.

These are significant changes, but proactive financial planning will help you smoothly navigate the road ahead.

MARKET VOLATILITY

Many investors feel that markets are much more volatile now than in the past. Recent events tend to shape our current emotions, opinions and bias. An article by Morgan Housel (a columnist with *The Motley Fool*) looked at research on the U.S. S&P 500 to find out if this is, in fact, the case. The author noted that the research shows markets do, in fact, seem to be more volatile on a *daily* basis now (2010-2015), versus the past (1950's and 60's). Factors attributing to this may include technology, internet, 24-hour investment news, computerized trading, cost of trading, etc. However, looking at average market volatility on a *monthly* or *annual* basis (which is more relevant than daily market movements), markets were comparably more stable in the recent period (2010 -2015) versus past decades. This a good reminder that investors should try to look at longer time horizons and not overreact to short-term events.

MISCELLANEOUS ITEMS

RRSP Limit: The Maximum Annual RRSP Contribution Limit for 2017 is $26,010. Note: To confirm your personal RRSP contribution room limit for 2017, you can refer to your 2016 Notice of Assessment or you can contact your advisor. The RRSP contribution deadline for the 2017 tax year is March 1st, 2018.

Prescribed Rate Loans: The rate for the quarter ending December 31, 2017, remains at 1%. Prescribed rate loans can be an effective tool to provide enhanced income splitting opportunities between spouses. Please be in touch with your advisor if you wish to learn more about this tax reduction strategy.

Empty Homes Tax: The City of Vancouver has also been taking action in local markets, with a new tax on homes deemed to be vacant. The tax was implemented January 1, 2017 and the first tax payments will be due in 2018. The Empty Homes Tax (Vacancy Tax) is based on 1% of the assessed value (potentially a significant expense, given high local property values), with the aim to penalize wealthy property speculators that are holding vacant properties. There is a possibility, however, that the tax could impact many average property owners who use their residence on a part-time basis due to personal circumstances. In general, the tax will target properties that are not a principal residence, or are not rented at least six months per year.

THANK YOU FROM MSC

MSC is a client referral-based firm and we thank you for referring your family, friends and coworkers to us. We appreciate our clients' ongoing loyalty and trust in our services; we are fortunate to have many long-term client relationships that have continued for decades, some more than 40 years!

Please feel free to send this newsletter to others you think may benefit from a Fee Only Financial Planner. Our newsletters can also be viewed on our website:

www.macdonaldshymko.com/financial-resources/articles-and-newsletters

MS & C
Since 1972

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