Macdonald, Shymko & Company Ltd.
Fee Only Financial Advisors/Portfolio Manager

Since 1972

WEALTH MONITOR

SPRING 2018

THE UNINTENDED CONSEQUENCES OF THE VANCOUVER VACANCY TAX

In November 2016, the City of Vancouver announced the Empty Homes Tax would be put into effect for the 2017 tax year as a means of relieving pressure on Vancouver's rental housing market. The tax is equal to 1% of a property's annual assessed value and, interestingly, Vancouver Tax Lawyers, Thorsteinssons LLP, recently published an article that identifies a hidden problem in the conceptual basis of the tax for home buyers.

Currently, each homeowner must declare the status of their property under the Vacancy tax legislation and the City may agree or disagree (and request further documentation) with the declaration. There is a provision, however, that enables the City to re-consider a decision not to tax a property within the following two years and retrospectively assess the tax for the elapsed year(s). The owner can dispute an assessment through a dispute-resolution process within the city bureaucracy, but meanwhile the tax becomes a levy collectible by the City as additional property tax. Although this may seem acceptable for those staying put in their homes, Thorsteinssons LLP have identified some implications for those looking to buy in the Vancouver area.

Thorsteinssons LLP makes the point that an issue arises if the City decides to re-assess the status of previous years after a new buyer has taken ownership. The Vacancy tax is similar to a property tax in that it runs with the land, rather than a particular individual, so a change in property ownership could let the seller off the hook by passing any potential re-assessments onto the new buyer. It is currently unclear whether the buyer would have any grounds for dispute and, therefore, could become liable for this unexpected tax.

"*Many buyers in Vancouver's pricey real estate market are already accepting considerable risk in making the purchase and are often stretched beyond their budget. The possibility of them inheriting a seller's vacancy tax liability after the purchase is not only unfair – it might also be too much to bear. It clearly points to a problem with the design of the tax that needs to be remedied*."

Thorsteinssons LLP (November, 2017), "Will Vancouver home buyers be on the hook for a seller's vacancy tax liability?" Available at: https://www.thor.ca/blog/2017/11/will-vancouver-home-buyers-be-on-the-hook-for-a-sellers-vacancy-tax-liability/

The Stock Market is a giant distraction to the business of investing.

- John. C. Bogle

INSIDE THIS ISSUE:

FEDERAL BUDGET UPDATE 2018

The Liberal Federal government presented their 2018 Budget in February, including clarification on the private corporation tax proposals. Some of the Budget highlights are as follows:

- **Private Corporation Income/Dividend Sprinkling:** The December 2017 draft legislation increasing the rate of the tax on split income (the TOSI or *Kiddie Tax*) remains in place. This is intended to prevent the sprinkling of income from private corporations, through dividends, to family members in an attempt to extract the dividends through a lower marginal tax bracket. The new rules will not apply, however, providing that the either the family member is receiving a "reasonable return" on their shares, taking into account a number of factors, such as: work performed, property contributed and risks assumed, or the spouse of a shareholder who is over age 65.
- **Private Corporation Passive Investment Income Tax:** Following the outcry from the business community over the initial Liberal plans, the 2018 Budget had a more toned-down, simplified approach. Companies that have active business income, and are also earning more than $50,000 a year in passive income, will see less of their active business income eligible for the small-business tax rate – which will be reduced to 9% as of 2019. The small-business deduction limit will be reduced on a straight-line basis ($5 for every $1 of passive investment income earned above $50,000), such that if passive income is in excess of $150,000, the small-business tax rate is eliminated and corporate income is subject to full federal tax rates.
- **Changes to the Refundable Dividend Tax on Hand (RDTOH):** The RDTOH is designed to achieve integration, so the tax payable on investment income is substantially the same regardless of whether it is earned in a corporation and paid out to the owner, or earned personally. The July 2017 proposals included a discussion on the removal of this mechanism, which would have resulted in distributed income from a private corporation becoming subject to far greater tax rates. The modified system announced in the 2018 Budget takes a less extreme approach by introducing both eligible and non-eligible RDTOH accounts and, therefore, enabling the separation and tracking of dividends that are qualified for the appropriate tax refunds.
- **Trust Income Tax Reporting:** New Trust reporting requirements and penalties have been announced, taking effect for returns filed in 2021 onward. A Trust resident in Canada will be required to file a tax return every year regardless of whether it has tax payable or distributes a portion of its income. In addition, the scope of what needs to be reported in certain Trust returns will be expanded. Trusts resident in Canada and non-resident Trusts that are required to file a return will be required to list all Trustees, Beneficiaries and Settlors of the Trust, as well as anybody who has the ability to exert control over trustee decisions. In order to support the new requirements, new penalties will be introduced for failure to file a return with the additional information.
- **Women Entrepreneurship Strategy:** In addition to the Venture Capital Catalyst Initiative introduced in 2017, the Budget includes $1.4 billion in new financing available to women-led businesses over the next three years. Further to these financing commitments, Ottawa will look to actively increase the amount of business entered into by the federal government with female-owned businesses.

MSC News

Upholding our firm's commitment to professional development, the MSC staff have all been busy attending conferences and seminars, as well as earning professional designations. In particular, congratulations are in order for David Thill who successfully passed the CFP® exam in December. MSC is also proud that Denny Oenar has recently become a Canadian Citizen. Welcome to "Our home and native land" Denny!

Advisors have attended numerous Society of Trust and Estate Practitioners (STEP) Seminars in Vancouver, whilst MSC also held an in-house Lunch and Learn session in December to discover more about the media frenzy surrounding Cryptocurrencies and Blockchain technology.

B.C. Budget Update 2018

The NDP government presented their first full B.C. Budget in February, with the main focus on cooling the over-heated housing market with new and increased taxation. Some of the proposed Budget highlights are as follows:

- **B.C. Non-Resident Homeowners Tax:** Beginning Fall 2018, a new tax will apply to homeowners who don't pay income tax in B.C., including those who leave their homes vacant and so-called satellite families (who may have high worldwide income but pay little or no income tax in B.C.). In 2018, the tax will amount to 0.5% of a property's assessed value (rising to 2% from 2019 onward) and will initially apply to Metro Vancouver, the Fraser Valley, Kelowna and West Kelowna, Nanaimo and the Victoria region. Whilst Finance Minister Carole James has said the government has not yet decided how to approach Canadians from outside B.C. who own vacation homes in the province, it also remains unclear the effects that the tax could have on B.C. residents. In February, NDP B.C. Premier John Horgan told the Vancouver Board of Trade, "*If you pay tax in B.C. you are not speculating from outside of B.C. … and would not fall in with the out-of-province speculation tax*". A fact sheet posted on the Finance Ministry website, however, claims that "a non-refundable income tax credit will *help* offset the tax for B.C. residents". The issue here is that the effect of a tax credit may not fully cover the amount of 'speculation tax' paid, dependent on property value and income earned. The conflicting information and vagueness from the government has many B.C. residents with vacation properties in the province concerned.
- **Foreign Buyers Tax:** The foreign buyers tax, introduced by the Liberals in 2016, will be increased from 15% to 20% and expanded to include the Fraser Valley, Okanagan, Victoria region and Nanaimo.
- **Property Transfer Tax:** As an attempt to curb housing market speculation, the Property Transfer Tax would increase from 3% to 5% on the portion of the home value over $3 million.
- **Property Tax for School Fees:** Starting in 2019, the School Tax will also be increased across the province on homes or vacant land with assessed values of over $3 million. The Budget proposes a tax rate of 0.2% to the portion of assessed value between $3 - $4 million and 0.4% on assessed value over $4 million.
- **MSP Premiums/Employer Health Tax:** Premiums were cut in half on January 1, 2018, as expected, and now they proposed a new Employer Health Tax, to offset full elimination of MSP premiums, to come into effect on January 1, 2019. Businesses with a payroll of $1.5 million or more will pay a rate of 1.95% on their total payroll, whilst those with a payroll of less than $500,000 will not pay the tax. The businesses that fall between these thresholds will pay a reduced tax rate.
- **Luxury Vehicles Tax:** Sales tax on vehicles over $125,000 and $150,000 will increase to 15% and 20% respectively (20% and 25% including GST).

Undoubtedly, these provisions may have implications for many of our clients. Please call if you would like to discuss.

MSC IN THE PRESS

MSC Advisors were quoted in the following articles:

December 29, 2017 – *Globe & Mail* Financial Facelift, "This couple wonder if early retirement makes sense with a high net worth." (Keith Copping)

January 19, 2018 – *Globe & Mail*, "Helping children up the property ladder can harm your retirement." (Ian Black)

Doug Macdonald was also featured in Wealth Professional's "Hall of Fame". Doug spoke about the evolution of the Financial Advisory industry and the need for a legal framework that holds 'Advisors' to broad-reaching fiduciary standards.

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

www.macdonaldshymko.com

TAX SEASON - IT'S THAT TIME OF YEAR AGAIN!

Tax season is upon us again and every year we prepare Income Tax Preparation Checklists for our clients to help organize the required material for their personal income tax returns. You can find the Checklist on our website. For clients that currently file their own personal tax returns, there is always the option to have MSC prepare your annual tax returns.

It is also the time of year where phone/email scams or other forms of fraud are common. People pretending to be CRA representatives may claim that there are serious penalties or legal matters outstanding and request personal information or immediate payment of outstanding taxes. If in doubt, call CRA directly or contact your advisor.

MISCELLANEOUS ITEMS

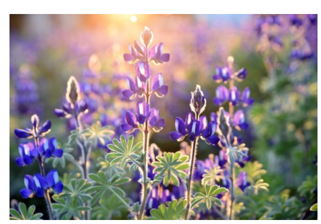
RRSP Limit: The Maximum Annual RRSP Contribution Limit for 2018 is $26,230. Note: To confirm your personal RRSP contribution room limit for 2018, you can refer to your 2017 Notice of Assessment or you can contact your advisor.

Tax-Free Savings Account (TFSA): The Annual Contribution Limit for 2018 is $5,500. This puts the TFSA Lifetime Maximum Contribution Limit at $57,500 if you have never contributed and have been eligible since its introduction in 2009.

Online Bill Payments: A reminder that MSC clients can pay their MSC statements online: this can be set-up with your financial institution online "bill payment" option.

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

MSC Since 1972

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