TD Wealth

Return On Investment

TD Wealth Private Investment Advice

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The Changing Times

The year 2015 will go down as having been a particularly difficult one for the financial markets. What lies ahead for the New Year? Unfortunately, Canada's economic challenges are expected to persist. The ongoing volatility experienced in the latter half of the year may continue as economic recovery remains challenged by low oil and commodity prices.

In spite of the challenges, Canada has shown some strength in its push towards economic recovery. The climb out of a mild contraction in the first half of last year, despite the lingering effects of the oil price shock in some areas of the country, was prompted by factors such as solid growth in manufacturing and exports. A lower Canadian dollar, as well as improvements in retail sales, also helped to produce overall modest growth.

These are changing times. Globally, investors have experienced many years of artificially low rates dictated by central bank policies. But, at the time of writing, a gradually rising interest rate environment is expected to take shape south of the border as U.S. economic recovery progresses. Although the Bank of Canada's target overnight rate remains unchanged and will likely be held at its low level due to sluggish economic growth, long-term bond yields, as well as mortgage rates, started to rise in the final months of 2015.

We also have a change in government. The recently elected federal Liberal government has promised billions of dollars in deficit spending. After many years of the federal government targeting surplus budgets, many hope that these new spending tactics will stimulate growth for Canada. At the same time, the new government will be increasing personal income tax rates for high-earning Canadians and lowering those for middle-class earners.

Only time will tell how these changes will impact both the economy and the investing landscape. We continue to believe that opportunity remains prevalent in even the most challenging of periods.

Change should also remind investors of the need to continue positioning their wealth and investment plans to ensure that they are best structured to account for these new developments. For instance, as personal income taxes may be rising for certain segments of the Canadian population, there may be ways to help minimize their impact. Even the simple fact of getting older may change your financial responsibilities and therefore, alter the goals for your investment portfolio.

Please call if you feel a personal review would be timely. Wishing you good health and happiness for the year ahead.

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Tax Planning Over a Lifetime

Using Your TFSA for RIF Withdrawals

Taxes are, indeed, one of life's few certainties. Not many people would want to give extra money to the government in the form of taxes, so tax minimization opportunities should always be a consideration for investors. Minimizing taxes should not simply be thought of when tax returns come due each year, but over an investor's entire lifetime.

As an example, individuals who delay drawing taxable funds because they do not want to pay the associated taxes today should remember that the value of certain accounts (such as a registered Retirement Income Fund (RIF)) is generally included in taxable income at death (unless there is a surviving spouse or common-law partner). If amounts included in an individual's terminal tax return are substantial they may be subject to a high marginal tax rate. The larger tax liability in the future could mean less funds left for beneficiaries of the estate than if the taxes are paid today at lower marginal rates.

Here's one way to use your Tax-Free Savings Account (TFSA) to potentially be strategic about your overall lifetime tax bill. Remember no taxes are due on any amounts withdrawn from the TFSA as contributions are effectively made with after-tax dollars.

If you believe that your marginal tax rate today is substantially lower than you expect in the future, consider withdrawing funds in excess of the required minimum annual amounts from your RIF and putting them into your TFSA (subject to available contribution room). In doing so, the funds will be taxed at your current (lower) tax rate, instead of at the higher marginal tax rate anticipated to apply in the year of death. Keep in mind that the effect on any income-tested government benefits (such as the Guaranteed Income Supplement, Old Age Security, the age credit, etc.) should be considered when contemplating this strategy.

At the time of writing, the cumulative maximum contribution limit for TFSAs (to the end of 2015) is $41,000. However, the TFSA annual contribution limit and federal personal tax brackets and marginal tax rates will be changing based on the recently elected federal Liberal government's election platform.

For the TFSA, the annual contribution limit will be reduced from the 2015 limit of $10,000 to $5,500 starting in 2016. With the government also increasing the highest marginal tax rate and lowering middle-income tax rates, this strategy may be compelling to certain investors, especially if they have not fully used their available TFSA contribution room.

This strategy may not be appropriate for every investor, but it is a good reminder that tax strategies should be considered today to potentially reduce an overall lifetime tax bill. A tax professional will be best placed to assist with this or other tax minimization opportunities that relate to your own situation. Please consult with a tax advisor before making any decisions.

Reminder: RIF Minimum Withdrawal Factors Have Changed

If you are 71 years of age or older, don't forget that the RIF minimum withdrawal factors were reduced for 2015 and subsequent years. As an example, a RIF holder who is 71 years of age and has RIF assets valued at $100,000 at the beginning of 2015 would have to withdraw a minimum amount of $5,280 from the RIF in 2015 (5.28 percent of RIF assets), compared to the previous minimum amount of $7,380 (7.38 percent of RIF assets).

If you have withdrawn more than the new, reduced amount in 2015, you will be permitted to recontribute any excess amount to your RIF (up to the amount of the reduction in the minimum withdrawal amount). **This must be done by Monday, February 29, 2016.** The recontribution will be deductible when calculating your income for the 2015 tax year.

Age (Start of Year)	Previous Factor %	New Factor %
71	7.38	5.28
72	7.48	5.40
73	7.59	5.53
74	7.71	5.67
75	7.85	5.82
76	7.99	5.98
77	8.15	6.17
78	8.33	6.36
79	8.53	6.58

Age (Start of Year)	Previous Factor %	New Factor %
80	8.75	6.82
81	8.99	7.08
82	9.27	7.38
83	9.58	7.71
84	9.93	8.08
85	10.33	8.51
86	10.79	8.99
87	11.33	9.55
88	11.96	10.21

Age (Start of Year)	Previous Factor %	New Factor %
89	12.71	10.99
90	13.62	11.92
91	14.73	13.06
92	16.12	14.49
93	17.92	16.34
94	20.00	18.79
95 years and over	20.00	20.00

Source: CRA website: http://www.cra-arc.gc.ca/gncy/bdgt/2015/qa02-eng.html

Estate Planning: Planning Ahead

What if Your Beneficiary Dies Before You?

Beneficiaries are often named in a will or plan well before an individual's death and may not be revisited as time passes. However, this may be a problem if a named beneficiary predeceases you.

For assets that pass outside of a will, if the beneficiary is no longer alive, these assets will generally become part of the estate. But what if these assets weren't intended to be passed along to those beneficiaries named within the will? In provinces/territories where estates are subject to probate tax, this will likely mean that these assets will now be subject to additional fees. The probate process may also delay the transfer of these assets.

Within a will, if a named beneficiary is no longer alive and instructions do not specifically direct the distribution of the share of assets, these assets may not pass along as intended.

To avoid potential complications, here are some things to consider:

Understand What is Written in Your Will

If you are reviewing or updating your will, it may be helpful to understand what directions have been included for the distribution of assets in the event that a beneficiary predeceases you.

Designate a Secondary Beneficiary

Consider designating a secondary beneficiary (or subrogated beneficiary, in Quebec) in the event that a named beneficiary predeceases you. This is sometimes called a contingent beneficiary because the secondary beneficiary will only become legitimate should the primary beneficiary not survive. For assets that do not pass within a will, this will ensure that they will continue to be directly transferred without potential probate fees or delays. Otherwise these assets will become part of the estate.

Keep Updated

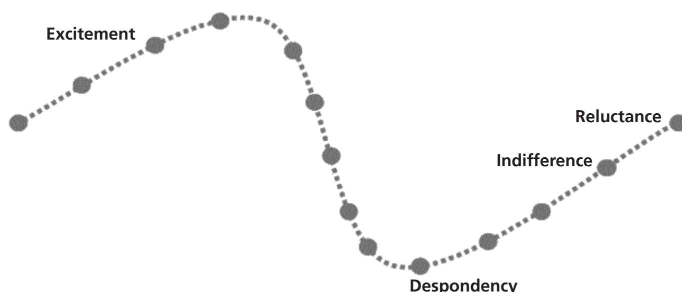
Given the potential issues that can arise if a beneficiary predeceases you, a regular review of your will and beneficiary designations is important. Periodic reviews will also help to ensure that the intended beneficiaries continue to be in place should life-changing family events occur, such as divorce or marriage. Please consult a lawyer before making any decisions.

A Perspective for Volatile Times

Separating Emotions from Investing

Fear and greed are the two emotions that are often said to drive market activity. Either emotion can be the downfall of an otherwise well-thought-out investment program for an individual investor.

The accompanying chart shows the emotions that are often associated with certain stages of market cycles.



Source: Adapted from ***"Understand the Cycle of Market Emotions"***, Forbes, 05/18/12.

During an uptrend, where the prices of equities are advancing and the market is rallying, there is often much excitement about the markets and optimism usually is the dominant emotion.

When things look most bleak and equities prices are in decline, the media often perpetuates the negative sentiment and evokes fear in many investors. The irony is that this is the time when many investors can find good buying opportunities, but instead the fear can drive them to avoid investing in the markets altogether (capitulation).

During volatile times, like those we have experienced recently, it is easy to get caught up in the emotional roller coaster. Why? Behavioural biases can help to explain why we react in certain ways during market movements, and even explain why we can make irrational investment decisions.

As examples, loss aversion, or the fear of potential loss, may cause an investor to second guess a portfolio strategy and encourage an investor to sell a winning position too soon or hold on to a losing position for too long. Or, an investor may base decisions by "anchoring" expectations to a reference point, even if there may be no logic that supports the anchored price.

What is the prevailing market mood today? Decide for yourself. But the key is to recognize that the emotional roller coaster in investing occurs again and again. This may provide some perspective in dealing with the difficult task of wealth building, and, as well, may help to avoid some of the pitfalls that emotions can create.

RSP Contribution Deadline

Registered Retirement Savings Plan (RSP) contributions for the 2015 tax year must be made by **Monday, February 29, 2016**. The RSP contribution limit for the 2015 tax year is 18 percent of 2014 earned income, to a maximum limit of $24,930, less any pension adjustment (PA) resulting from contributions to a registered pension plan or deferred profit sharing plan, less any 2014 past service pension adjustment (PSPA) and plus any 2014 pension adjustment reversal (PAR) and unused contribution room carried forward.

Federal Tax Changes Are Expected

The recently elected federal Liberal government has indicated noteworthy changes that may affect taxpayers. Note: these pledged changes are not guaranteed to be implemented and, at the time of publishing, the timing of certain tax changes remains in question.

Changes to the Federal Personal Income Tax Rate — The Liberals will introduce a new high-income federal tax bracket for taxable income above $200,000 in 2016, to be taxed at a federal rate of 33 percent. Currently this level of income is taxed at a rate of 29 percent. Federal tax rates will be reduced for taxable income between $45,282 and $90,563 (2016 amounts) from 22 percent to 20.5 percent.

Reduction of the TFSA Annual Contribution Limit — The Liberals will roll back the Tax-Free Savings Account (TFSA) annual contribution limit of $10,000 (in 2015) to $5,500 for 2016.

Changes to the Employee Stock Option Benefit Deduction — Individuals who exercise employee stock options are generally taxed on the difference between the exercise price and fair market value of the stock as employment income, and under current rules may be entitled to a stock option deduction equal to 50 percent of the income if certain criteria are met. It is anticipated that limits will be set on the amount of the deduction that can be claimed for employees with over $100,000 in annual stock option gains.

Changes to Existing Child Tax Benefits — Three existing benefits – the Universal Child Care Benefit, Canada Child Tax Benefit and the National Child Benefit Supplement – are anticipated to be replaced with one single benefit termed the "Canada Child Benefit". The maximum amount of this tax-free benefit is expected to be $6,400 per year per child under the age of 6 ($5,400 per child between 6 to 17 years old) and will be gradually reduced based on family income. Families with household income of $200,000 or more will not be eligible for this benefit.

Elimination of the "Family Tax Cut" — This federal non-refundable tax credit that allows for income splitting for couples with dependent children under the age of 18 (to a maximum benefit of $2,000) is expected to be eliminated.

These, and other anticipated tax changes, underline the importance of forward-thinking tax planning. If you may be affected by the proposed 33 percent federal tax rate, here are some ideas:

Timing Withdrawals from a RSP/RIF — If you are considering withdrawing from a registered Retirement Savings Plan (RSP) or withdrawing more than the required minimum from a registered Retirement Income Fund (RIF) and do not need the funds, there may be an advantage to continuing to hold these funds in the RSP/RIF to benefit from the potential to defer an additional 4 percent in taxes and allow the funds to continue to grow on a tax-deferred basis.

Income Splitting — A variety of income-splitting opportunities can be explored to shift taxable income from high-income to low-income spouses, common-law partners (CLPs) and even children. These include use of a spousal loan, creating a family trust, pension income splitting between older spouses/CLPs or using a spousal RSP.

Business Owners: Defer Compensation — Business owners may consider deferring compensation to reduce earned income. As an example, establishing an Individual Pension Plan (IPP) can defer compensation and allow funds to grow in a tax-deferred registered plan until retirement.

Seek Assistance

Please seek assistance from a professional tax advisor on how to best plan for the potential tax changes based on your situation.

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